

1. (a) ✓ Explain **four** roles played by a finance manager in an organization. (8 marks)

(b) Dipka Limited intends to invest in the following projects in a single period capital rationing:

Project	Initial Investment (Ksh)	Net Present Value (Ksh)
X	1,000,000	5,500,000
Y	200,000	2,000,000
Z	8,000,000	12,000,000

Dipka has Ksh 2,800,000 available for investment.

(i) ✓ Determine the profitability index (PI) of each project.

(ii) ✓ Rank the projects based on the profitability index ascertained in (i) above.

(iii) Prepare an optimal investment plan.

(12 marks)

2. ✓ (a) Explain **four** external factors that may affect the dividend policy of a company. (8 marks)

(b) On 1 January 2015, Masha Limited borrowed a loan of Ksh 2,000,000, repayable in 5 years. Interest chargeable on the loan was 25% per annum.

(i) ✓ Determine the installment payable per annum.

(ii) Prepare an amortization schedule to show the above repayments. (12 marks)

3. ✓ (a) Explain **four** financial services offered by insurance companies in an economy. (8 marks)

(b) The following information relates to stock HL used by Sweto Limited.

Purchase price per unit	Ksh 20
Annual storage cost per unit ✓	Ksh 2
Cost of placing an order ✓	Ksh 200
Normal usage per year ✓	45,000 units
Normal delivery time	6 weeks
Maximum delivery time	8 weeks
Prime interest rate	12.5%

The stock was financed by a bank loan.

Taking 50 working weeks in a year, calculate:

(i) ✓ Safety stock

(ii) ✓ Economic order Quantity (EOQ)

(iii) ✓ Average stock

(12 marks)

4. (a) Highlight **five** challenges that may be encountered by a multinational corporation that operates a subsidiary in a foreign country. (10 marks)
- (b) The following balances were extracted from the books of Nyango Manufacturers on 31 December 2014:

	Ksh
Cash in hand (1-1-2014)	2,400,000
Dividends paid	84,500
Interest paid	60,000
Proceeds from investment	3,260,000
Investment	5,200,000
Addition to machinery	4,000,000
Additional capital introduced	6,000,000
Redemption of shares	4,550,000
Taxation paid	295,600
Proceeds from loan	240,000
Dividends received	420,000
Cash received from debtors	1,600,000
Cash paid to suppliers	9,840,000
Cash in hand 31-12-2014	909,900

Using the direct method, prepare a cash flow statement for the year ended 31 December 2014. (10 marks)

5. (a) Explain **five** circumstances under which a firm may prefer to use debt capital to equity capital. (10 marks)
- (b) The following is the capital structure of Mnazi Limited as at 30 June 2015.

	Ksh
1,000,000 Ordinary shares	15,000,000
500,000 8% Preference shares	20,000,000
100,000 10% Debentures	20,000,000

The market price of ordinary shares is Ksh 20 per share. Shareholders expect a dividend of Ksh 4 per share, with a growth rate of 6%. Preference shares are currently selling at Ksh 50 per share, while debentures are selling at par. The corporation tax is 30%.

Using the market values, determine:

- (i) cost of preference shares;
- (ii) cost of debentures;
- (iii) weighted average cost of capital. (10 marks)

6. ✕ (a) Gala Limited is considering investing in machine X. The following information relates to the machine.

	Ksh
Cost price	2,000,000
Annual profits after tax and depreciation	150,000
Scrap value	120,000

Additional information:

- Expected rate of return is 10%.
- Depreciation is provided on straight line method.
- The machine has an expected useful life of 10 years.

- (i) Determine the Net Present Value (NPV) of the machine.
 (ii) Using (i) above, advise the management on whether to invest in the machine or not. (12 marks)

- (b) The following information relates to Komo Limited for the year ended 31 December 2014.

	Ksh
Ordinary share capital of Ksh 20 each	10,000,000
12% Preference shares of Ksh.50 each	5,000,000
Interest on loan	250,000
Net profit before tax	2,400,000
Corporation tax	30%
Total Assets	8,000,000

The company paid a dividend of 20% per share to ordinary shareholders. The market price of ordinary shares was Ksh 25 per share.

Calculate each of following ratios:

- (i) Return on Assets
 (ii) Return on equity
 (iii) Dividend yield.
 (iv) Preference shares divided cover. (8 marks)

7. (a) Explain **four** characteristics of preference shares as a source of business finance. (8 marks)

- (b) Makaro Limited operates four subsidiaries: A, B, C and D. The percentage of capital invested in each subsidiary and their betas are given below:

<u>Subsidiary</u>	<u>% capital invested</u>	<u>Beta</u>
A	55	0.60
B	30	0.80
C	10	1.40
D	5	1.50

Determine

- (i) The beta of the holding company.
- (ii) Given that the risk free rate is 6% and the market risk premium is 4%, calculate the required rate of return for Makaro Limited. (12 marks)

Table A Present Value of Sh 1 Received at the End of n Periods:
 $PVIF_{r,n} = 1 / (1 + r)^n = (1 + r)^{-n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813	.7576	.7353
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104	.5739	.5407
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768	.4348	.3975
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725	.3294	.2923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	.4761	.4371	.4019	.3411	.2910	.2495	.2149
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4556	.4323	.4104	.3704	.3349	.2751	.2274	.1890	.1580
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3998	.3759	.3538	.3139	.2791	.2218	.1776	.1432	.1162
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388	.1085	.0854
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2255	.1938	.1443	.1084	.0822	.0628
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847	.0623	.0462
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2368	.2149	.1954	.1619	.1346	.0938	.0662	.0472	.0340
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517	.0357	.0250
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404	.0271	.0184
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316	.0205	.0135
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247	.0155	.0099
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193	.0118	.0073
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150	.0089	.0054
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118	.0068	.0039
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0188	.0092	.0051	.0029
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072	.0039	.0021
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021	.0010	.0005
30	.7419	.5521	.4120	.3063	.2314	.1741	.1314	.0994	.0754	.0573	.0334	.0196	.0151	.0116	.0070	.0042	.0016	.0006	.0002	.0001
40	.6717	.4529	.3066	.2063	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002	.0001	.0001	.0001
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001	.0001	.0001	.0001	.0001
60	.5504	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	.0001	.0001	.0001	.0001	.0001	.0001

Table B: Present Value of an Annuity of Sh. 1 Per Period for n Periods:

$$PVIFA_{r,n} = \sum_{t=1}^n \frac{1}{(1+r)^t} = \frac{1 - \frac{1}{(1+r)^n}}{r}$$

Number of Periods	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	18%	18%	20%	24%	28%	32%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8917	0.8748	0.8696	0.8621	0.8475	0.8333	0.8205	0.8076	0.7813	0.7576	0.7376
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6991	1.6647	1.6517	1.6352	1.5956	1.5722	1.5498	1.5274	1.4858	1.4568	1.4315
3	2.9410	2.8839	2.8285	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4018	2.3216	2.2832	2.2459	2.1743	2.1505	2.1281	2.1058	1.9813	1.8984	1.7663
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2387	3.1669	3.0373	2.9137	2.8650	2.7982	2.6901	2.6687	2.6487	2.6291	2.4043	2.2410	2.0957
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7909	3.6048	3.4331	3.3522	3.2743	3.1272	2.9906	2.9654	2.9406	2.5370	2.3452	
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.1114	3.8887	3.7845	3.6847	3.4976	3.3255	3.2005	3.0754	2.7594	2.5342	
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8664	4.5638	4.2882	4.1604	4.0386	3.8115	3.6046	3.4232	3.2970	2.9370	2.6775	
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	4.9676	4.6389	4.4873	4.3436	4.0776	3.8372	3.6212	3.0758	2.7860		
9	8.5680	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.3282	4.9464	4.7716	4.6085	4.3030	4.0310	3.5655	3.1842	2.8601		
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.6502	5.2161	5.0188	4.8332	4.4941	4.1925	3.6919	3.2589	2.9204		
11	10.3676	9.7869	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	5.9377	5.4527	5.2337	5.0296	4.6560	4.3271	3.7757	3.3361	2.9776		
12	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.1944	5.6803	5.4206	5.1971	4.7932	4.4382	3.8514	3.3868	3.0133		
13	12.1337	11.3484	10.6350	9.9856	9.3936	8.8577	8.3577	7.9038	7.4869	7.1034	6.4235	5.8424	5.5831	5.3423	4.9085	4.5327	3.9124	3.4272	3.0404		
14	13.0037	12.1062	11.2961	10.5631	9.8985	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	6.0071	5.7245	5.4675	5.0081	4.6106	3.9616	3.4687	3.0695		
15	13.8651	12.8493	11.9379	11.1184	10.3793	9.7122	9.1079	8.5595	8.0607	7.6061	6.8109	6.1422	5.8474	5.5755	5.0916	4.6755	4.0013	3.4834	3.0764		
16	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	6.9740	6.2651	5.9542	5.6685	5.1624	4.7286	4.0333	3.5026	3.0862		
17	15.5623	14.2919	13.1661	12.1857	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.1198	6.3729	6.0472	5.7487	5.2223	4.7746	4.0591	3.5177	3.0971		
18	16.3983	14.9920	13.7535	12.6593	11.6853	10.8276	10.0591	9.3719	8.7556	8.2014	7.2437	6.4674	6.1280	5.8120	5.2732	4.8122	4.0798	3.5294	3.1035		
19	17.2260	15.6785	14.3239	13.1339	12.0883	11.1581	10.3356	9.6036	8.9501	8.3649	7.3658	6.5504	6.1982	5.8775	5.3162	4.8435	4.0967	3.5386	3.1090		
20	18.0456	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5138	7.4694	6.6231	6.2593	5.9288	5.3527	4.8686	4.1103	3.5458	3.1129		
25	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	7.8431	6.8729	6.4841	6.0971	5.4869	4.9476	4.1474	3.5640	3.1220		
30	25.8077	22.3965	19.6004	17.2970	15.3725	13.7848	12.4090	11.2578	10.2737	9.4289	8.0552	7.0027	6.5680	6.1772	5.5168	4.9789	4.1601	3.5693	3.1242		
40	32.8347	27.3555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.7574	9.7791	8.2438	7.1050	6.6418	6.2335	5.5482	4.9966	4.1659	3.5712	3.1250		
50	39.1961	31.4236	25.7288	21.4832	18.2559	15.7619	13.8007	12.2335	10.9617	9.9148	8.3045	7.1327	6.6605	6.2483	5.5541	4.9955	4.1666	3.5714	3.1250		
60	44.9550	34.7609	27.6756	22.6235	18.9293	16.1614	14.0392	12.3768	11.0480	9.9672	8.3240	7.1401	6.6651	6.2402	5.5553	4.9999	4.1667	3.5714	3.1250		

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