



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF EDUCATION
ARTS
3RD YEAR 1ST SEMESTER 2013/2014 ACADEMIC YEAR
KISII – SCHOOL BASED**

COURSE CODE: ABA 303

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM VENUE: LR 17

STREAM: (BEd arts)

DATE: 28/8/14

EXAM SESSION: 9.00 – 11.00 AM

TIME: 2 HOURS

Instructions:

- 1. Answer ALL Questions in section A and any other two questions in section B**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

SECTION A(30 marks)

1 a) Discuss 5 effects of under capitalization. (10 marks)

b) From the following balance sheet of Mr Kamau Industries Ltd, as at 31 March 2008.

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	10,000	Fixed assets	26,000
7% Preference Share capital	2,000	(less	
Reserves and surplus	8,000	Depreciation	
6% Mortgage Debentures	14,000	Rs. 10,000)	
Current Liabilities:		Current	
Creditors	1,200	Assets:	
Bills Payable	2,000	Cash	1,000
Outstanding expenses	200	Investments	3,000
		Sundry debtors	4,000
Tax provision	2,600	Stock	<u>6,000</u>
	—		40,000
	40,000		

Other information:

Net sales	Rs.60, 000
Cost of goods sold	Rs. 51,600
Net income before tax	Rs.4, 000
Net income after tax	Rs.2, 000

Calculate: a) Current ratio c) Proprietary ratio (12 marks)

b) Liquid ratio d) Debt-Equity ratio

c) Discuss 4 major functions of a finance manager. (8 marks)

(SECTION B 40 MARKS)

2 a) Explain the factors affecting the dividend policy. (12 marks)

b) X Company Ltd has 100,000 shares outstanding the current market price of the shares Rs. 15 each. The company expects a net profit of Rs.200, 000 during the year and it belongs to a rich class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Rs. 2.50 per share for the current year. What will be the price of the share at the end of the year:

i. If the dividend is paid. (4 marks)

ii. If the dividend is not paid. (4 marks)

3. Critically explain the factors affecting the requirements of working capital. (8 marks)

From the following information extracted from books of a manufacturing company, compute the operating cycle in days and the amount of working capital required. (12 marks)

Period covered	365 days
Average period of credit allowed by suppliers	16 days
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of Average stock maintained:	
Raw material	320
Work in progress	350
Finished goods	260

4. a) Distinguish between money and capital markets. (4 marks)

b) Describe any five roles played by the stock exchange market in Kenya. (10 marks)

c) Mention any three differences between bonds and shares. (6 marks)

5. a) Differentiate the capital structure and financial structure. (10 marks)

b) A company expects a net income of Rs. 1,000,000. It has Rs. 2,500,000, 8% debentures. The equality capitalization rate of the company is 10%. Calculate the value of the firm and the overall capitalization rate according to the net income approach. (ignoring income tax) . (10 marks)

c) If the debenture debts are increased to 4,000,000. What will be the value of the firm and the overall capitalization rate? (5 marks)

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