



**ALUPE UNIVERSITY
COLLEGE**

... Bastion of Knowledge ...

P. O.Box 845-50400 Busia(K)

principal@auc.ac.ke

Tel: +254 741 217 185

+254 736 044 469

off Bustia-Malaba road

OFFICE OF THE DEPUTY PRINCIPAL

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2018 /2019 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER REGULAR EXAMINATION

FOR THE DIPLOMA IN BUSINESS

MANAGEMENT

COURSE CODE: DBM 019

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 23/04/2019

TIME: 2.00-5.00PM

INSTRUCTION TO CANDIDATES

- **SEE INSIDE**



THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

INSTRUCTIONS TO CANDIDATES

- Answer Question **ONE** and any other **TWO** questions
- Question **ONE** carries 30 marks
- Time allowed: 3 hours

QUESTION ONE

- Define financial management and discuss the functions of a financial manager (10 marks)
- Explain the various goals of a business firm (10 marks)
- Discuss the importance of budgeting (5marks)
- Discuss the main features of ordinary share capital (5 marks)

QUESTION TWO

Two mutually exclusive projects proposals with the following cash flows for their lifespan of 5 years after which there is no salvage value are under consideration by the management of XYZ establishment.

	Cash Flows (Shs.)	
Year	Project X	Project Y
1	420,000	255,000
2	380,000	125,000
3	410,000	210,000
4	370,000	460,000
5	395,000	695,000
Initial costs outlay	(1,050,000)	(1,050,000)

The firm cost of capital stands at 10% p.a. you are required to advice management on which project to undertake from each of the following techniques:

- Pay back period (4 marks)
- Accounting rate of return (6 marks)

- iii) Net present values of both projects. (6 marks)
- iv) Internal rate of return (1 marks)

QUESTION THREE

- a) Distinguish between money and capital markets (10 marks)
- b) Explain the differences between primary and secondary markets (2 marks)
- c) Discuss the importance of being listed in the Nairobi stock exchange (8 marks)

QUESTION FOUR

- a) Using elaborate examples discuss the various sources of funds that can be used to finance a business (10 marks)
- b) Explain the various factors you will consider as a business manager in choosing funds to finance your firm (5 marks)
- c) Distinguish between ordinary share capital and preference share capital (5 marks)

QUESTION FIVE

Explain the following dividend theories as applied in finance

- i. M and M dividend irrelevance theory (4 marks)
- ii. Bird in hand theory (4 marks)
- iii. Information signaling effect theory (4 marks)
- iv. Clientele effect theory (4 marks)
- v. Agency theory (4 marks)

