

TUESDAY: 6 December 2022. Morning paper

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. DO NOT write anything on this paper.

SECTION A

QUESTION ONE

- (a) Outline FOUR ways agency conflicts between the manager and shareholders can be resolved. (4 marks)
- (b) Identify FIVE components of working capital. (5 marks)
- (c) Highlight FIVE participants in the money markets in Kenya (5 marks)
- (d) Explain THREE advantages of companies using debt as a source of finance (6 marks)

(Total: 20 marks)

SECTION B

QUESTION TWO

- (a) Zaidi Ltd borrowed a loan of sh. 1 million from OBO bank Ltd at an interest rate of 10% per annum. The loan is repayable annually over a period of 3 years and the interest is paid on the reduced balance.

Required:

- (i) Compute the amount of each installment (4 marks)
- (ii) Prepare loan amortization schedule (6 marks)
- (b) Describe FIVE functions of a financial manager. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain FIVE roles of the Capital Markets Authority of Kenya. (10 marks)
- (b) A firm intends to make project management decisions on the projects. The firm has an initial capital outlay of sh. 1,800,000 for either Project A or Project B. The expected cash flows at a 15% per annum rate of return are as follows;

Period	Project (sh.)	
	A	B
1	500,000	600,000
2	500,000	800,000
3	500,000	700,000
4	500,000	400,000
5	500,000	300,000
6	500,000	200,000



**Required:**

Compute for each project:

- (i) Payback period (4 marks)
- (ii) Profitability index (6 marks)

**(Total: 20 marks)**

**SECTION C**

**QUESTION FOUR**

- (a) Ndovu Limited expects to pay a dividend of sh. 2 per share in one year's time. The current market price per share is sh. 30. The company also expects future earnings to grow by 5% per annum. The company has no debt capital in its capital structure. Compute the cost of equity of the company. (5 marks)
- (b) The following is an extract from the final accounts of Muge Ltd for the year 2021

<b>Statement of financial position as at 31/12/2021</b>	<b>Sh '000</b>
Non-current assets	1,600
Inventory	400
Accounts receivables	200
Cash at bank	20
Accounts payable	600
Sales	6,400
Less; cost of sales	(2800)
Gross profit	3,600
Less; Expenses	(800)
Net profit	2,800

**Required;**

Compute:

- (i) Net profit margin (2 marks)
- (ii) Gross profit margin (2 marks)
- (iii) Inventory turnover (2 marks)
- (iv) Acid test ratio (2 marks)
- (v) Current ratio (2 marks)
- (c) Explain FIVE causes of exchange rate fluctuations. (10 marks)
- (d) Highlight FIVE criticisms of financing projects through public-private partnerships (5 marks)
- (e) Explain FIVE purposes of financial ratio analysis (5 marks)
- (f) Describe FIVE emerging issues affecting global economies. (5 marks)

**(Total: 40 marks)**

.....

