



Riara School of Business
Nurturing business innovators

MAY -AUGUST 2023 TRIMESTER EXAMINATIONS
DAY/PROGRAMME
EXAMINATION FOR DIPLOMA IN BUSINESS ADMINISTRATION/DBIT/DBRSM
RBM 024: FUNDAMENTALS OF FINANCIAL MANAGEMENT

DATE: 3RD AUGUST 2023
HOURS

TIME: 2

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book
11. Fasten the supplementary pages to the inside back cover of this booklet

QUESTION ONE: COMPULSORY (30 MARKS)

- a) A company has a monthly demand of 3,000 units each costing sh150. The cost of capital is 15% while fixed cost per order is sh 1,300. The company works for 290 days per year and it has a lead time of 5 weeks.

Required:

- i. Determine the economic order quantity **(4marks)**
 - ii. Determine the annual orders **(3 marks)**
 - iii. Determine the total cost **(5 marks)**
- b) Explain **six** factors that influence dividend policy **(12 marks)**
- c) Explain **three** types of ratios used in analyzing financial performance of a company **(6 marks)**

QUESTION TWO

- a) Highlight **three** features of preference shares **(3 marks)**
- b) Highlight **three** features of debt capital **(3 marks)**
- c) Explain **FOUR** reasons for time preference for money **(8 marks)**
- d) Explain **THREE** possible **external** changes that could affect the working capital needs of a business **(6 marks)**

QUESTION THREE

- a) Discuss **five** main factors that should be taken into account when deciding on the appropriate mix of long-term and short-term borrowing to finance a business **(10marks)**
- b) Explain **four** areas of decisions faced by a finance manager in an organization **(10 marks)**

QUESTION FOUR

XYZ plc has an opportunity to invest in one of two machines with the following benefits:

	Machine A	Machine B
	Sh.	Sh.
Initial expenditure	2,900,000	2,900,000
Estimated future cash flows:		
Year 1	1,350,000	1,600,000
Year 2	1,350,000	1,600,000
Year 3	1,050,000	1,050,000

Year 4	150,000	1,050,000
Year 5	150,000	0

At the end of the five years the expected scrap value for machine A is sh. 100,000 and sh. 150,000 for machine B. It is company policy to charge depreciation on a straight-line basis. The company has estimated that their cost of capital is 13%.

Required:

- a) Calculate Net Present value for each machine **(10 marks)**
- b) Calculate payback period for each machine **(6 marks)**
- c) Explain which the machines you would recommend for acceptance under each method **(4 marks)**