**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING FINANCE & INVESTMENTS**

**UNIT CODE : FINA 213**

**UNIT TITLE : FINANCIAL MANAGEMENT**

**Due -15th July 11:59pm**

**INSTRUCTIONS**

**Answer All questions**

**Show clearly your workings & avoid copy pasting**

**Show the references of your work**

**Question One**

a) Discuss whether profitability or liquidity is the primary objective of working capital

Management

b) A company was recently formed to manufacture juice in mini packets. It has the following

capital structure in market value terms:

8% preference share of Ksh 6 each 1,200,000

Ordinary shares of Ksh 10 each 7, 8000,000

2

12% debentures stock per value of Ksh 200 2,000,000

20% bank loan 4,400,000

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 15,000,000Additional information

• The firm intends to raise additional capital of 4 million without altering the current

capital structure.

• The current market price of the sources of finance are as follows:

• Ordinary shares ksh. 25

• 6% preference share of ksh 12

• 12% debentures stock issued at ksh 85

• The company will incur a floatation cost of ksh 5 per share

• The ordinary shareholders will receive a cash dividend of ksh. 4 per share these dividends

are expected to grow at 5% in perpetuity

Required Calculate;

i. The cost of each source of finance

ii. The new capital structure

iii. Weighted average cost of capital 10Marks

**QUESTION TWO**

a) Write short notes on the following;

i. Bills of exchange

ii. Debentures

iii. Central depository system

iv. Lease (8 marks)

b) Several methods exists for evaluating investment projects under capital budgeting.

Identify and explain four features of an ideal investment appraisal method. (2marks)

**3**

**QUESTION THREE**

BCB Company is a manufacturer of bricks and concrete blocks. The company is considering

replacing part of the current manual labour force by purchasing a small tractor with a forklift for

use in loading bricks and concrete blocks. The purchase price would be Sh.570, 000. The

tractor will have an economic life of 5 years but would require a Sh.20, 000 overhaul at the end

of 3 years. After 5 years the tractor could be sold for Sh.110, 000.

The company estimates it will cost Sh.250, 000 per year to operate the tractor. It will, however,

save Sh.130, 000 annually on labour cost. Because of increase in handling efficiency, losses

caused by breakages will be cut by Sh.220, 000 per year. Sales will also go up by Sh.450, 000.

The new sales level is expected to be maintained throughout the tractor’s life. Assume the

company’s gross margin ratio is 40%, corporate tax rate 30%, and cost of capital 16%. Also

assume straight-line method of depreciation.

Required:

Determine the NPV of the project and state whether the tractor should be purchased.

 (10 marks)

ECON 301: Intermediate Microeconomic Analysis

Assignment

Due date – 13 th July 2017 8 AM

Question ONE

Mutua’s utility function for goods x and y is represented by µ(x,y) = x1/3y

2/3

Given his income is Ksh.5,400, the prices of goods x and y are Ksh.4 and 10 respectively.

i) What is the optimal consumption bundle (x,y) given the income

and prices? (5 marks)

ii) Derive the demand functions for goods x and y. (5 Marks)

iii) What quantity of goods x and y will Mutua consume if his income

rises to Ksh.7,200?

iv) What is the Income elasticity of demand for x and y between the

income levels sh.5,400 and sh.7,200? What type of goods are

these?

(5 marks)

(5 marks)

Question TWO

Given the following economic functions:

i) Distinguish between the supply and demand curves. Clearly show you

working; (5 marks)

Qx = 9 - ½ P2

Qy = 8p + ½P2

ii) Sketch the equilibrium, clearly identifying at least two quantity points on

each axis.

iii) If Q represents quantity (in thousands of units), determine the

equilibrium demand and supply in this market (5 marks)

iv) The Government has decided that the above product is essential and has set

the maximum price at sh.0.20. Determine the quantity of shortage or excess

supply, if any, that this price fixing may cause (5 marks)

Question THREE

The demand function for a product sold by a monopolist is Q= 30-P and average cost AC= 0.5Q

i) Determine the quantity that will maximize the profit (2 mks)

ii) Determine the selling price at the optimal level of production (2 mks)

iii) Determine the maximum profit (2 mks)

iv) Calculate the deadweight (4 mks)

Maximum points = 50