(KNOWLEDGE FOR DEVELOPMENT)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BBM 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 05/12/2018 **TIME:** 3.30 P.M – 5.30 P.M

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE IN SECTION A AND ANY OTHER TWO (2) QUESTIONS IN SECTION B

TIME: 2 HOURS

SECTION A (COMPULSORY)

QUESTION ONE (COMPULSORY)

Company XYZ contemplates to raise debt finance totaling Shs. 1,000,000. It will be required to pay an annual interest of 10%. This money can be invested in one of the following projects, A or B, which will generate the following cash inflows.

Period	Project A	Project B
1	300,000	600,000
2	100,000	500,000
3	400,000	400,000
4	500,000	300,000
5	600,000	100,000

Required

a. Using the NPV method advise the management accordingly as to which one of the two projects would be viable and why. (12 marks)

b. Using payback period (PBP) method, which of the two projects should the company invest in? (12 marks)

c. State three advantages of using payback period compared with NPV method (6 marks)

SECTION B (ANSWER ANY TWO QUESTIONS)

QUESTION TWO

a) Many organizations start business and deviate from their main goals, discuss five goals of the firm 10 marks

b) The financial management function is usually associated with the Chief Financial Officer. Discuss five roles and functions of a finance manager (10 marks)

QUESTION THREE

a) Discuss four reasons why profit maximization is seen as the Cardinal goal of a firm (8 marks)

b) Find the price of bond with a coupon rate of 12% having 3 years to maturity. Its par value is ksh. 20,000 and the discount rate is 12%

c) State four decisions that should be made involving risk- return trade off (4 marks)

QUESTION FOUR

a) Maua Co. Ltd intends to invest in two machines X and Y. Each of these machines will cost this company Shs. 200,000 to purchase and each has an estimated economic life of 10 years after which there will be residual value. The two machines are expected to generate profits as follows: -

Net returns after tax but before depreciation

	Machine X	**Machine Y**
	Shs.	**Shs.**
Year 1	40,000	60,000
2	50,000	40,000
3	30,000	50,000
4	10,000	30,000
5	20,000	20,000
6	30,000	18,000
7	15,000	14,000
8	10,000	8,000
9	5,000	3,000
10	30,000	30,000

Required

Using ARR method, which of the above machines should be purchased? 10 marks

b) define the following terms :

i) Cash forecasting 2 marks

ii) Cash planning 2marks

c) State six reasons that compel businesses to maintain working capital at optimal level 6marks

QUESTION FIVE

a) Company ABC Ltd want to invest in one of the following two projects, A and B which require an initial cash outlay of Kshs. 1 000 000 and will pay an interest of 10% p.a on this money. This projects will generate the following cash flows

Year	**Project A** **Shs.**	**Project B** **Shs.**
1	500 000	600 000
2	40 000	160 000
3	100 000	40 000
4	600 000	500 000
5	160 000	100 000

Required: advice the investor using

i. PBP Method (5 marks)

ii. NPV Method (5 marks)

b) Kenya limited requires 2,000 components in the coming year which costs shs.50 each. The items are available locally at a lead time of one week. An order costs shs.50 to prepare and process while the holding costs amounts to shs.15 per unit per year for storage plus a 10% opportunity cost of order costs.

i. Compute the number of units that should be ordered each time to minimize inventory cost
(3marks)

ii. What is the re-order level (2marks)

iii. How many orders will be placed in the year
(2marks)

iv. Determine total cost (3marks)