(*Knowledge for Development*)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SPECIAL / SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF EDUCATION ARTS

COURSE CODE: BBM 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 11/10/18   TIME: 9:00 A.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

SECTION A

QUESTION ONE (COMPULSORY)

(a) Stalls A and B have the following probability distribution of possible returns

Probability	A %	B%
0.1	-15	-20
0.2	0	10
0.4	5	20
0.2	10	30
0.1	25	50

Required:

(i) Risk and Return of stock and coefficient of variation and advice an investor based on calculation.   (10 marks)

(ii) From the above information what is the expected return of the portfolio assuming that the weight of stock A is 0.5 and the weight of stock B is also 0.5   (2 marks)

(iii) Compute the risk of the portfolio   (10 marks)

(b)   Discuss the following functions or roles of finance manager in relation to financial management

(i) Investment   (2 marks)

(ii) Risk management   (2marks)

(iii) Financial   (2 marks)

(iv) Financial markets   (2 marks)

QUESTION TWO

(a) A firm has two projects X and Y for which the initial Investment costs Ksh 1 million.

Project A

Years	Cash inflows
1	300,000
2	1,000,000
3	400,000

Project B

Years	Cash Inflows
1	600,000
2	600,000
3	600,000

Advice the investor on which project to invest in based on probability index assuming the discount rate of 10 %   (12 marks)

(b) Highlight four advantage of NPV and two advantages and disadvantage of Accounting Rate of Returns (ARR).   (8 marks)

QUESTION THREE

(a) Highlight four assumptions of Economic Order Quantity   (4 marks)

(b) Consider a company which issues 100,000 in bond due in 5 yrs with 15% interest payable annually at the year end when the market rate of such a bond is 12 % (note that the present value of annuity at 12% for 5 yeas is 3.6048).

(i) Calculate the present value or selling price of the bond   (6marks)

(ii) Calculate the effective Interest rate of the bond   (4marks)

(c) Highlight six determinants of working capital needs   (6 marks)

QUESTION FOUR

ABC ltd. has the following capital structure as at 31st March 2010:

	Shs.
Ordinary share capital (400, 000 shares)	16,000,000
10% preference share capital	2,000,000
14% Bond capital	14,000,000

Additional Information
1. The market price of each ordinary share as at 31st March 2010 was sh. 40
2. The firm paid a dividend of Sh. 4 for each ordinary share for the Year ended 1st March 2010.
3. The annual growth rate in dividend is 7%
4. The corporation tax rate is 30 %

Required:

(i) Compute the Weighted Average Cost of Capital of the firm as at 31st March 2010   (10 marks)

(ii) The firm intends to issue a 15% Sh. 4 million bond during the year ending 31st March 2011. The existing bonds will not be affected by the issue. The dividend per share for the year ending 31st March 2011. The dividend per share for the year ending 31st March 2011 is expected to be sh.6 while the average Market price per share over the same period is estimated to be Sh 60. The average annual growth rate in dividends is expected to remain at 7%. Compute the Weighted Average Cost of Capital as at 31st March 2011.   (10 marks)

QUESTION FIVE

a) Although profit maximization has long been considered as the main goal of a firm, shareholder wealth maximization is growing acceptance amongst most companies as the key goal of the firm.

Required:
i) Distinguish between the goal of profit maximization and the shareholder wealth maximization (5marks)

ii) Explain why profit maximization is seen as a Cardinal goal (5marks)

b) Discuss in detail five objectives of financial management (10 marks)