



(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SPECIAL / SUPPLEMENTARY EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS

COURSE CODE: BBM 200/BCF200/BCF211

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 11TH FEBRUARY, 2021

TIME: 2.00PM – 4.00PM

INSTRUCTIONS TO CANDIDATES

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

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. 

SECTION A

QUESTION ONE (COMPULSORY)

- a) The financial management function is usually associated with the Chief Financial Officer. Discuss five roles of a finance manager (10marks)
- b) Explain in detail five important characteristics of capital budgeting decisions (10marks)
- c) Explain why profit maximization is seen as a Cardinal goal (5marks)
- d) Briefly explain the limitations of Economic Order Quantity (5marks)

QUESTION TWO

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. These 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:

Using the following capital budgeting methods indicate which machine is preferred.

- i. Pay Back Period Method (4marks)
- ii. Net Present Value Method (8marks)
- iii. Profitability Index Method (8marks)

QUESTION THREE

- a) The agency problem arises when one party, the principle employs another party, the agent to act on his behalf". In the context of this, discuss how company manager's objectives may differ from those of shareholders and point out the policies that managers might adopt that are likely to be considered sub-optimal by shareholders (15marks)
- b) Briefly discuss five determinants of working capital needs (5marks)

QUESTION FOUR

- (a) Daima Investment Bank has provided the following information relating to two of its securities namely; A and B:

State of economy	Probability (P_i)	Security returns (%)	
		A	B
Stable	0.30	12	6
Expansion	0.40	15	7.5
Recession	0.30	10	5

Required:

- i. The expected return for each security (2marks)
- ii. The standard deviation for each security (2marks)
- iii. The expected return of a portfolio constituting 60% of security A and 40% of security B. (2marks)
- iv. Coefficient of variation and advice the investor (2marks)
- v. Covariance of the two securities (3marks)
- vi. The correlation coefficient between the two securities returns (3marks)
- vii. Compute the risk of the portfolio (6marks)

QUESTION FIVE

- a) The capital structure of XYZ Limited is given as below:

	Sh. (000)
8,000,000 ordinary shares of sh.10 each	80,000
4,000,000 12% preference shares of sh.10 each	40,000
16% long term loan	5,000

8% Debentures	3,000
Total	128,000

Additional information:

- i) Ordinary shares are currently quoted at sh. 14 on the security exchange.
- ii) Ordinary shares have a dividend cover of 3 times and earnings per share of sh.6.
- iii) The 18% debentures were issued in 2009 at a price of sh. 100 and are due for redemption in 2017 at sh. 120.
- iv) The company incurred sh.400, 000 in floatation cost when raising the loan.
- v) The applicable tax rate is 30 %

Required:

- a) The company's growth in equity (4marks)
- b) The company's Weighted cost of capital (6marks)

- 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.

Required:

- i. Economic Order Quantity (3marks)
- ii. Number of orders in a year (2marks)
- iii. Re-order level (2marks)
- iv. Total cost (3marks)