



*(Knowledge for Development)*  
**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER / SECOND YEAR FIRST SEMESTER**

**SPECIAL / SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS AND**

**BACHELOR OF COMMERCE**

**COURSE CODE: BBM 200 / BCF 211**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 25<sup>ST</sup> JULY, 2022**

**TIME: 11.00AM – 1.00PM**

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**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 3 Printed Pages. Please Turn Over.**

## SECTION A

### QUESTION ONE (COMPULSORY)

- a) Discuss in detail five functions of a finance manager (5marks)
- b) Discuss the five objectives of a firm (10marks)
- c) Discuss five important characteristics of capital budgeting decisions (10marks)
- d) Explain why profit maximization is seen as a Cardinal goal (5marks)

### SECTION B (ANSWER ANY TWO QUESTIONS)

#### QUESTION TWO

Akuot Limited has Ksh. 15 million to invest in two projects. The company would like to invest 9 million in Oil drilling and Ksh. 6 million in a Wheat mill. The details of the two projects are given below:

Probability	Expected Earnings Wheat Mill ( % )	Expected Earnings Oil Drilling
0.2	70	-25
0.3	45	35
0.4	10	60
0.1	-35	75

#### **Required:**

- i. Calculate the expected return and risk of the two projects (5marks)
- ii. What is the expected Return of the portfolio (2marks)
- iii. Which of the two projects would you recommend (3marks)
- iv. Compute the risk of the portfolio (10marks)

#### QUESTION THREE

a) A firm wants to buy a machine for which the following information on net cash inflow is available (amounts in ksh). Each machine costs Ksh.10, 000.

Year	1	2	3	4	5
Machine A	1,000	2,000	6,000	7,000	8,000
Machine B	5,000	5,000	1,000	500	500

#### **Required:**

- i.) Using the payback method indicate which machine is preferred (5marks)
- ii.) Discuss the advantages and disadvantages of payback period (5marks)

c) A farmer is in a dilemma of whether to invest his Ksh. 800,000 in buying a Tractor or a Posho mill. The expected annual returns for the next four years are:

Years	Tractor	Posho mill
1	300,000	355,000
2	265,000	287,500
3	230,000	250,000
4	180,000	202,500

**Required:**

Using NPV at a discount rate of 10% advice the farmer on which equipment to invest in.

(10marks)

#### **QUESTION FOUR**

- i) 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 capital.
- Compute the number of units that should be ordered each time to minimize inventory cost (5marks)
  - What is the re-order level (5marks)
  - How many orders will be placed in the year (5marks)
  - Determine the total relevant cost (5marks)

#### **QUESTION FIVE**

- Discuss in detail the agency relationship between managers and shareholders (10 marks)
- Despite the large investment in the stock exchange and the various government activities, only a few companies are listed at the stock exchange. This was the opening remark by the quest speaker in a seminar whose theme was “Developing out capital market”. Highlight five advantages and disadvantages of companies being listed at the stock exchange. (10marks)