(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: 25ST JULY,2022 TIME: 11.00AM – 1.00PM

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

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.

a) Compute the number of units that should be ordered each time to minimize inventory cost (5marks)

b) What is the re-order level (5marks)

c) How many orders will be placed in the year (5marks)

d) Determine the total relevant cost (5marks)

QUESTION FIVE

a) Discuss in detail the agency relationship between managers and shareholders (10 marks)

b) 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)