



(*Knowledge for Development*)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 211

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 19TH DECEMBER, 2022

TIME: 9.00AM – 11.00AM

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 the THREE main goals of a business firm (6marks)
- b) Despite being more risky, ordinary shares are more popular among investors as opposed to preference shares. Justify for the popularity of ordinary shares among the shareholders (4 marks)
- c) Discuss five important characteristics of capital budgeting decisions (5marks)
- d) Profit maximization is seen currently as a Cardinal or traditional goal. Justify for the arguments against profit maximization (5marks)
- e) The financial management function is usually associated with the Chief Financial Officer. Discuss five roles of a finance manager (5marks)
- f) Explain any Five factors that may influence the level of working capital of a firm (5 marks)

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:

a) Using the payback method indicate which machine is preferred (5marks)

b) 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

a) Explain 5 reasons why Commercial Banks Prefer to Lend Short Term Loans (10marks)

b) Describe 5 limitations of ratio analysis (10marks)

QUESTION FIVE

- a) Discuss in detail the agency relationship between managers and shareholders
(10 marks)
- b) The primary function of the financial markets is to facilitate the transfer of funds from surplus sectors (lenders) to deficit sectors (borrowers). Compare and contrast primary markets and secondary markets under classification of financial markets as per seasoning of claims.
(10marks)