KIBABII UNIVERSITY COLLEGE (KIBUCO)

MAIN CAMPUS

UNIVERSITY EXAMINATIONS
2014 /2015 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

MAIN EXAMINATION

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BBM 200

COURSE TITLE: FINACIAL MANAGEMENT (EDUCATION GROUP)

DATE: 22nd January 2015 **TIME: 8.00-10.00 a.m.**

INSTRUCTIONS TO CANDIDATES:

Answer Question ONE and any other Two Questions

TIME: 2 Hours

QUESTION ONE (COMPULSORY)

(a) Explain your understanding of the expression "Agency problem" in a business organization set-up and show how this problem between managers and shareholders can be resolved (10 marks)

(b) List and explain five features of common share capital which is categorized as a long-term source of finance for business entities (10 marks)

(c) Explain the following terms as used in capital budgeting:-

(i) Mutually exclusive projects (2 marks)

(ii) Independent projects (2 marks)

(d) Discuss in detail the three managerial functions of a finance manager in a business set up (6 marks)

QUESTION TWO

ABC Ltd has Kshs. 15 million to invest in two projects. The company would like to invest Kshs. 9 million in oil drilling and Kshs.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 (5 marks)

(ii) What is the expected Return and risk of the Port folio (10 marks)

(iii) Which of the two projects would you recommend based on return and risk (5 marks)

QUESTION THREE

(a) A company is considering two mutually Exclusive projects requiring an intial cash outlay of shs 10,000 each and with a useful life 5 years. The company's required rate of return is 10% and the corporate tax is 50%. The project will be depreciated on a straight line basis. The inflows before depreciation and taxes are as follows:-

Year	1	2	3	4	5
Project A	4,000	4,000	4,000	4,000	4,000
Project B	6,000	3,000	2,000	5,000	5,000

Required

Advice the management on which project to choose in consideration of:-

(i) Net Present Value (NPV) (5 marks)

(ii) Accounting Rate of Return (ARR) (10 marks)

(b) State two advantages and three disadvantages of pay back method used as a traditional method of capital budgeting (5 marks)

QUESTION FOUR

(a) A company 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:-

(i) The market price of each ordinary share as at 31st March 2010 was shs. 40

(ii) The firm paid a dividend of shs. 4 for each ordinary share for the year ended 31/3/2010

(iii) The annual growth rate in dividend is 7%

(iv) The corporation tax rate is 30%

Required

Compute the weighted Average cost of capital (WACC) of the firm as at 31st March 2010. (10 marks)

(b) Highlight five determinants of working capital needs. (10 marks)

QUESTION FIVE

(a) A company uses 50,000 nuts per annum which are shs. 10 each to purchase. The ordering and handling costs are shs. 150 per order and carrying costs are 15% of purchase price per annum.

Required

(i) Calculate the EOQ (3 marks)

(ii) Annual Number of order (3 marks)

(iii) Total cost (3 marks)

(b) Briefly explain the three approaches that may be employed to finance current assets (6 marks)

(c) State and explain the three main goals of a firm (5 marks)