



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS JANUARY-APRIL 2025 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCFI 200**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 3 APRIL 2025**

**TIME: 8.00 AM – 10.00 AM**

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#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **TWO** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*

## SECTION A: COMPULSORY

### Question One

- a) How is the study of financial management beneficial to a student? **[4 marks]**
- b) The profit maximization goal is considered an important goal but on the other hand it has been criticized. Explain three reasons for the criticism of the goal. **[6 marks]**
- c) In agency relationship between shareholders and management conflict can arise due to various reasons. Describe five other agency relationships in the agency theory. **[10 marks]**
- d) Mathius Investment Company has two investment proposals X and Y whose cost is kshs 100,000 and kshs 140,000. The projects' cost of capital is 16% and the cash flow is expected to be as follows:

year	Inflow (A)	Outflow (A)	Inflow (B)	Outflow (B)
1	180,000	20,000	150,000	0
2	120,000	40,000	100,000	0
3	200,000	60,000	200,000	20,000
4	100,000	40,000	400,000	100,000
5	80,000	80,000	200,000	100,000

**Required:** Advise the firm on the best proposals using:

- i) Payback period method **[5 marks]**
- ii) Profitability index **[5 marks]**

## SECTION B: ANSWER ANY TWO QUESTIONS

### Question Two

- a) Explain any five sources from where a firm can finance its operations. **[10 marks]**
- b) Commercial banks offer both short term and long term loans although they prefer offering the former. Explain five reasons why banks prefer offering short term loans. **[10 marks]**

### Question three

- a) In the job specification the finance manager is expected to carry out both routine and key functions of the firm. Discuss the five key functions expected of a finance manager.

[10 marks]

- b) Jumbo Ltd is an all equity firm whose Beta factor is 1.2, the interest rate on T. bills is currently at 8.5% and the market rate of return is 14.5%. Determine the cost of equity  $K_e$ , for the company.

[10 marks]

### Question Four

- a) XYZ Company has identified three investment proposals, A B and C. Each of the investment proposals cost Kshs 120,000 and each is expected to last for a period of 5 years. The cost of capital is 12% and the projects generate the following cash inflow:

A	B	C
60,000	40,000	20,000
80,000	56,000	30,000
70,000	0	20,000
90,000	0	120,000
20,000	1,000,000	40,000

Using Net Present Value (NPV) method, advice the firm on the appropriate investment option to undertake.

[12 marks]

- b) Capital Markets Authority in Kenya is crucial in the development of the economy. Explain four roles played by the Capital Markets Authority.

[8 marks]

### Question five

- a) Payment of dividends is usually at the discretion of management. Various theories have been put forward in relation to the importance of dividend payment. Discuss any five dividend theories.

[10 marks]

- b) Rhamu limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4<sup>th</sup> year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

	Shs.
Year 1	60,000
Year 2	72,650
Year 3	35,720
Year 4	48,510
Year 5	91,630
Year 6	83,715

This company can raise finance to purchase machine at 12% interest rate.

Compute NPV and advise management accordingly.

**[10 marks]**