GRETSA UNIVERSITY – THIKA

UNIVERSITY EXAMINATIONS

JANUARY – APRIL 2026 SEMESTER

BACHELOR OF ARTS IN PUBLIC ADMINISTRATION AND GOVERNANCE

COURSE CODE: BCFI 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE:09 APRIL 2026 **TIME: 2 HOURS**

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 [30 MARKS]

a) From the following alternative projects, recommend the best project.

i. Annuity of kshs. 5,000 for 30 years

ii. Annuity of kshs. 6,600 for 20 years

iii. Kshs.50,000 cash now **[3 Marks]**

b) An investor commits kshs.10, 000 in a savings account at 10% interest for ten years. How much will be the investment after ten years. **[2 Marks]**

c) The decisions that a finance manager makes dictate what the finance manager does. Explain this statement **[5 Marks]**

d) Given an annual interest rate of 10% on a public company. Determine the effective interest rate if compounding is done quarterly. **[5 Marks]**

e) Two neighboring Countries have resolved to foster business growth, aiming to improve the livelihoods of their people. You are required to explain to the beneficiaries' ten benefits of each of the following business organizations giving examples where necessary.

i. Sole trade Business **[5 Marks]**

ii. Partnership Business **[5 Marks]**

iii. Limited Company **[5 Marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

QUESTION TWO [20 MARKS]

a) Assume a project whose cost is Kshs. 2, 500. The expected yearly cash flows are Kshs. 9, 000, Kshs. 8, 000, Kshs. 7, 000. The discount rate is 10%. Determine the Net Present Value of the project and comment. **[8 Marks]**

b) A company contemplates to receive Kshs.:

20,000 in year 1

18,000 in year 2

24,000 in year 3

Nil in year 4

40,000 in year 5

Cost of this finance is 12%

Required

Compute Present Value of that finance **[8 Marks]**

c) Explain four disadvantages of Hire Purchase as a source of finance **[4 Marks]**

QUESTION THREE [20 MARKS]

a) Investors face different types of investment projects from which to make decisions. Explain this statement. **[2 Marks]**

b) Within a Financial Management context, discuss the problems that might exist in the relationships (sometimes referred to as agency relationships) between:

i. Shareholders and managers, and **[6 Marks]**

ii. Shareholders and creditors. **[6 Marks]**

c) Assume a project costs Kshs.80, 000 and will generate the following cash inflows:

Cash inflows

Inflows year 1 = 10,000

Inflows year 2 = 30,000

Inflows year 3 = 15,000

Inflows year 4 = 20,000

Inflows year 5 = 30,000

Required: Calculate the Payback Period of the project and interpret its meaning**[6 Marks]**

QUESTION FOUR [20 MARKS]

a) Explain six reasons why ordinary share capital have a high cost relative to debt capital **[6 Marks]**

b) Identify eight methods of issuing new ordinary shares to shareholders. **[8 Marks]**

c) Outline the functions of a financial manager in a contemporary corporate set-up **[6 Marks]**

QUESTION FIVE [20 MARKS]

a) Explain eight weaknesses associated with profit maximisation goal **[8 Marks]**

b) Explain the types of agency costs that arise in agent-principal relationship that exist between shareholders and managers. **[8 Marks]**

c) Discuss four ways financial management in private (commercial firms) differ from financial management in government/public sector. **[4 Marks]**