MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR
(ACADEMICS, RESEARCH & EXTENSION)

UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER EXAMINATION

FOR THE DEGREE
OF
BACHELOR OF EDUCATION

COURSE CODE: EDB 400

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 10TH JULY, 2019   **TIME:** 2.00 P.M. – 5.00 P.M.

INSTRUCTION TO CANDIDATES

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EDB 400 – FINANCIAL MANAGEMENT

Instructions: Answer Question One (Compulsory) and any other two questions

Question One

a) You have been employed by Ukweli millers Ltd as the financial manager. Discuss four major roles you will play in the company. **(8 marks)**

b) Discuss five actions that a government can take that can influence the tasks of the financial manager and explain how these actions can affect the attainment of financial objectives. **(10 marks)**

c) Show that you understand the term "Trading on equity". **(2 marks)**

d) Outline three ways in which the conflict between the shareholders and the Directors of a firm can be reduced. **(5 marks)**

e) Outline briefly four problems that companies may face in doing CSR in Kenya **(5 marks)**

Question two

a) State two types of capital rationing **(4 marks)**

b) ABC Co has capital of $95,000 available for investment in the forthcoming period. The directors decide to consider projects P, Q and R only. They wish to invest only in whole projects, but surplus can be invested.

Project	Investment required	PV of inflows at 20%
	$000	$000
P	40	56.5
Q	50	67.0
R	30	48.8

Required:

Which combination of projects will produce the highest NPV at a cost of capital of 20%?

(6 marks)

c) The following information is provided about project X

Economic conditions	Cash Flow	Probability
Boom	10,000	20%
Normal	5000	50%
Recession	(1000)	30%

Required:

i) Calculate the standard deviation of this project **(6 marks)**

ii) Calculate the coefficient of Variation of the project **(4 marks)**

Question Three

a) Mr. Juma is considering two mutually exclusive investment projects, A and B. the cost of each of the projects is Sh. 1,500,000. The acceptable interest rate for Mr. Juma is 12%

Year	Project A		Project B	
	Cash Inflow	Probability	Cash Inflow	Probability
1	300,000	0.3	400,000	0.1
2	400,000	0.2	600,000	0.4
3	700,000	0.3	700,000	0.3
4	600,000	0.2	300,000	0.2

Required:
  i) Calculate the NPV for each of the projects. **(12 marks)**

  ii) Advise Mr. Juma on which project to invest in using the NPV method. **(3 Marks)**

b) Explain five reasons why firms operating in Kenya should engage in Corporate Social Responsibilities (CSR) **(5 marks)**

c)

Question Four
  a) Define the term Capital structure. **(2 marks)**