



**ALUPE UNIVERSITY
COLLEGE**

... Bastion of Knowledge...

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OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2021 /2022 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS

COURSE CODE: EDB 400

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 31ST JANUARY 2022

TIME: 9AM – 12.00 NOON

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

MAIN EXAM

EDB 400: FINANCIAL MANAGEMENT

STREAM: BED (Arts)

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) Maximization of shareholders wealth as one of financial goals is synonymous with maximizing the price of the company's stock. Discuss. (4 marks)
- (b) Distinguish agency costs from agency conflicts in agency relationships (4 marks)
- (c) What determines dividend decision of a company? (10 marks)
- (d) Compute the value of a bond with the following details (6 marks)

Required rate of return	5%
Coupon rate of interest	9.5%
Bond worth	Shs. 500,000
Maturity	4 years
- (e) The net operating income of Kifaru Limited is \$200,000. It has \$800,000, 7% debentures. If the overall capitalization rate is 10%, calculate the Value of the firm and equity capitalization rate using net operating income approach (6 Marks)

QUESTION TWO

- (a) Write brief notes on the following terms;
 - (i) Steep versus flat yield curve (6 marks)
 - (ii) Preferred habitat versus market segmentation theory (4 marks)
- (b) Explain how yield curve can be supportive (10 marks)

QUESTION THREE

- (a) An investor raised the capital through issuing of 40,000, 4% preference shares of Shs. 100 each at a discount of 5%. These shares were redeemable after 6 years. The associated costs of issuing shares were shs.2 per share. Compute cost of preference share capital (10 marks)
- (b) Explain reasons why a company may opt to raise capital by issuing equity rather than preference shares (10 marks)

QUESTION FOUR

In the recent past, most companies need to focus more on corporate governance as a contemporary issue in financial management. In relation to this statement, Explain;

- (i) Reasons for focusing on corporate governance (10 marks)
- (ii) Problems of corporate governance practice in Kenya (10 marks)

QUESTION FIVE

(a) The following information relates to project W and X

	<i>Project W (\$)</i>	<i>Project X (\$)</i>
Initial cost	180,000	170,000
<u>Cash inflows p.a for 6 years</u>		
Under Optimistic circumstances	100,000	90,000
Under Most likely circumstances	75,000	82,000
Under pessimistic circumstances	55,000	45,000

Required;

- (i) Advise the bank on the project to undertake if the discount rate is 12% using sensitivity (10 Marks)
- (ii) The probabilities for both projects under optimistic, most likely and pessimistic are given to 0.2, 0.6 and 0.2 respectively. Assume circumstances occur in year 1, 2 and 3 respectively. Advise the project to undertake using probability technique (10 Marks)