



**ALUPE UNIVERSITY  
COLLEGE**

*... Bastion of Knowledge...*

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**OFFICE OF THE DEPUTY PRINCIPAL  
ACADEMICS, STUDENT AFFAIRS AND RESEARCH**

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## **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: 31<sup>ST</sup> JANUARY 2022**

**TIME: 9AM – 12.00 NOON**

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### **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**

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**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)