

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**YEAR III SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE/ YEAR II SEMESTER II BACHELOR OF BUSINESS AND OFFICE MANAGEMENT/YEAR IV SEMESTER I BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT/YEAR III SEMESTER I BACHELOR OF BUSINESS INFORMATION TECHNOLOGY**

**HBC 2206/ HPS 2404: FINANCIAL MANAGEMENT**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND**

**ANY OTHER TWO QUESTIONS.**

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**QUESTION ONE (30 MARKS)**

(a) Discuss the meaning and scope of financial management. (4 marks)

(b) Explain the objectives of financial decisions. (4 marks)

(c) Discuss the difference between long-term and short-term

financial decisions. (4 marks)

(d) Discuss the meaning of working capital management and

state its formular. (4 marks)

(e) Explain the investment decisions of financial managers. (4 marks)

(f) Discuss the main goals of a firm in detail. (4 marks)

(g) Explain any three methods of project appraisal and

state their acceptance rules. (6 marks)

**QUESTION TWO (20 MARKS)**

(a) A project costs, Shs.10,000 now and is expected to generate year and cash inflows of Shs.3,600, 3,200, 2,800, 2,400 and 2,000 form year one to year five. The opportunity cost of capital is assumed to be 10%. Calculate the NPV, profitability index and the payback period of the project. The present value factors are 0.909, 0.826, 0.751, 0.683 and 0.620 from year one to five respectively. (10 marks)

(b) Discuss the desirable competencies of a financial manager. (10 marks)

**QUESTION THREE (20 MARKS)**

(a) Explain the meaning of leverage and the types of leverage of firms in details. (10 marks)

(b) Firm A is levered and finances its assets by equity and debt. It has a No.1 of Shs.5,000 and interest payments of Shs.1,500. The firm’s equity capitalization rate is 9.33% and cost of debt is 6%. Find the value of the firm and the Weighted Average Cost of capital. (10 marks)

**QUESTION FOUR (20 MARKS)**

(a) Discuss the determinants of working capital requirement of a firm in detail. (10 marks)

(b) Explain the factors that influence the dividend policy of a firm.(10 marks)