



**EMBU UNIVERSITY COLLEGE**  
**(A Constituent College of the University of Nairobi)**

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2015/2016 ACADEMIC YEAR

TRIMESTER EXAMINATION

SECOND YEAR EXAMINATION FOR THE DIPLOMA IN PURCHASING AND  
SUPPLIES

BBA 203: FINANCIAL MANAGEMENT

DATE: AUGUST 17, 2016

TIME: 11:00AM-1:00PM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

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QUESTION ONE (30 MARKS)

- a) Embu Investment Company is considering if any of the four independent projects to undertake would be viable. The forecast cash flow for each project is listed below. Receipts arise at the end of the year. The company preferred rate of interest for the project is 10% per year.

Project	Immediately	Year 1	Year 2	Year 3
1	-2500	1000	1000	1000
2	-1000	100	1400	0
3	-1000	800	600	0
4	-4000	0	0	5000

Required:

- i) Using NPV rule, indicate the projects to be accepted. (10 marks)
- b) Briefly discuss various methods that would minimise agency problems that may exist between owners and firm management. (6 marks)
- c) Briefly describe the regulatory authorities found in the Kenyan financial system. (9 marks)
- d) Briefly describe the following terms;

- i) Money markets.
- ii) Capital markets
- iii) Financial intermediaries
- iv) Secondary markets
- v) Budget

(5 marks)

**QUESTION TWO (20 MARKS)**

a) Assume that your wealthy relative has offered you the following alternatives;;

- KShs. 5,000.00 now
- KShs. 1,000.00 a year for 8 years
- KShs. 8,000.00 at the end of the eighth year from now

- i) If you could earn 11% annually, which alternative would you choose?(6 marks
- ii) Would you choose the same alternative if the expected rate of return is 12%?  
Give reason(s)

(5 marks)

b) There are several theories which try to look at the relevancy or irrelevancy of dividend payment. Discuss three of these theories.

(9 marks)

**QUESTION THREE (20 MARKS)**

- a) Explain the time value of money concept and give examples. (4 marks)
- b) Discuss the three investors risk attitudes. (9 marks)
- c) Discuss three sources of debt financing. (7 marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss the dangers of holding excessive working capital. (9 marks)
- b) Explain three factors that may influence the company's capital structure. (9 marks)
- c) List down two advantages of budgeting. (2 marks)

**QUESTION FIVE (20 MARKS)**

- a) Briefly explain four factors that influence companies' cost of capital. (4 marks)
- b) Briefly describe the factors affecting choice of source of finance and give examples. (8 marks)
- c) List down and describe four internal sources of finance. (8 marks)

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