SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

UNIT CODE: BBA 301, UNIT NAME: FINANCIAL MANAGEMENT

September – December 2018/2019 End Semester Exam - Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

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 formulae. **(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 (15 MARKS)

a) Describe in brief the greatest difficulties faced in capital budgeting in the real world **(5 marks)**

b) Mumias Milling Company purchased a grinder 3 years ago at a cost of Sh.3.5 million. The grinder had a life of 8 years at the time of purchase. It is being depreciated at 15% per year

on a declining balance. The company is considering replacing it with a new grinder costing Sh.7 million with an expected useful life of 5 years. Due to increased efficiency, the profit before depreciation is expected to increase by Sh.400, 000 a year. The old and new grinders will now be depreciated at 25% per year on a declining balance for tax purposes. The salvage value of the new grinder is estimated at Sh.210, 000. The market value of the old grinder, today, is Sh.4 million. It is estimated to have a zero salvage value after 5 years. The company's tax is 30% and the after tax cost of capital is 12%.

Required:-Should the new grinder be bought? Explain. **(10 marks)**

QUESTION THREE (15 MARKS)

(a)Explain the meaning of leverage and the types of leverage of firms in details. **(5 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 (15 MARKS)

a) Explain Kenya's Vision 2030 **(1 marks)**

b) Explain the three pillars of the Vision 2030 Programme **(6 marks)**

c) Briefly explain what a Government's economic fiscal policy is **(3 marks)**

d) Discuss in details how the Government of Kenya employs the economic fiscal policy tools. **(5 marks)**

QUESTION FIVE (15 MARKS)

a) Define agency relationship from the context of a public limited company and briefly explain how this arises. **(4 marks)**

b) Highlight the various measures that would minimize agency problems between the owners and the management. **(5 marks)**

c) Evaluate any three factors that may be responsible for the slow growth in the number of companies seeking listing at the Nairobi Stock Exchange or Stock Exchange in your country. **(6 marks)**