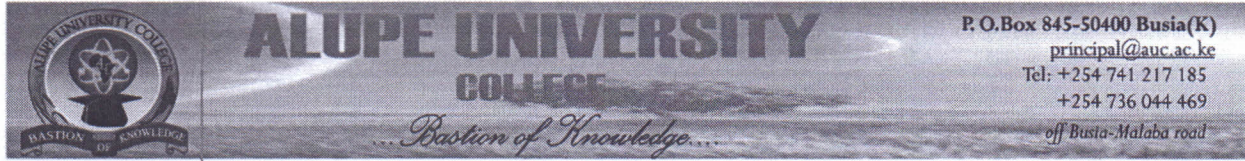


EDB 400



OFFICE OF THE DEPUTY PRINCIPAL  
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

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## UNIVERSITY EXAMINATIONS

### 2020 /2021 ACADEMIC YEAR

FURTH YEAR FIRST SEMESTER SUPPLIMENTARY  
EXAMINATION

**FOR THE DEGREE OF BACHELOR OF  
EDUCATION ARTS**

**COURSE CODE: EDB 400**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 20<sup>TH</sup> MARCH, 2021**

**TIME: 9AM – 12.00 NOON**

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### INSTRUCTION TO CANDIDATES

- SEE INSIDE

**THIS PAPER CONSISTS OF 3 PRINTED PAGES**

**PLEASE TURN OVER**

**SUPPLEMENTARY 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) Discuss the profit maximization objective giving its main drawbacks (8 marks)
- (b) In financial markets, capital and money market differ. Discuss. (6 marks)
- (c) There are two projects A and B. Each involves an investment of \$50,000. The expected cash inflows and the certainly co-efficient are as under:

Year	Project A		Project B	
	Cash inflows	Certainly co-efficient	Cash inflows	Certainly Co-efficient
1	35,000	0.8	25,000	0.9
2	30,000	0.7	35,000	0.8
3	20,000	0.9	20,000	0.7

Risk-free cutoff rate is 10%. Using Certainly equivalent method, suggest which of the two projects Should be preferred. (10 marks)

- (d) A company can mobilize finance through internal or external sources. Discuss the main sources of internal finance. (6 marks)

**QUESTION TWO**

A company has on its books the following amounts and specific costs of each type of capital;

Type of capital	Book Value (Kshs.)	Market Value (Kshs.)	Specific costs (%)
Debt	400,000	380,000	5
Preference shares	100,000	110,000	8
Equity Shares	600,000	900,000	15
Retained earnings	200,000	300,000	13

### EDB 400

TOTAL	13,000,000	1,890,000	
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Determine the weighted average cost of capital using;

- (i) Book value weights method (9 marks)
- (ii) Market value weights method (9 marks)
- (iii) Comment on the weighted average cost of capital computed using the above two methods (2 marks)

#### QUESTION THREE

- (a) The functions of a modern finance manager are stipulated under the modern approach to financial management. Discuss. (12 marks)
- (b) Lima Limited owns equity shares which gives them annual dividend of Kshs. 10,000 per annum. If they are expected to sell the shares at Kshs. 200 each after a year, calculate;
  - (i) Present value of share if the discount rate is 12 % (4 marks)
  - (ii) Assume the constant growth in dividends is at rate of 8%, what is the value of the share? (4 marks)

#### QUESTION FOUR

- (a) Explain any five evaluation methods used under risk and uncertainty in capital budgeting. (10 marks)
- (b) Discuss the factors determining the dividend policy of a firm (10 marks)

#### QUESTION FIVE

- (a) Discuss how Treynor differs from Sharpe portfolio performance measures (6 marks)
- (b) An investor has two securities, K and L whereby the following returns were given together with probabilities;

Returns of security K (%)	Returns of security L (%)	Probabilities
20	16	0.3
12	20	0.4
13	14	0.3

Calculate;

- (i) The risk of security K and L (6 Marks)
- (ii) The covariance of security K and L (4 Marks)
- (iii) The correlation coefficient between security K and L (4 Marks)