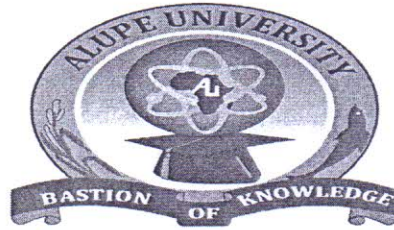


EDB 400/BHM 417



OFFICE OF THE DEPUTY PRINCIPAL  
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

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# UNIVERSITY EXAMINATIONS

## 2022 /2023 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF  
EDUCATION ARTS

BACHELOR OF HOSPITALITY MANAGEMENT

COURSE CODE: EDB 400/BHM 417

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 7<sup>TH</sup> DECEMBER 2022

TIME: 9.00 A.M TO 12.00 P.M

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### INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

MAIN EXAM

## EDB 400/BHM 417: FINANCIAL MANAGEMENT

STREAM: BED (Arts)/BHM

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) How does market segmentation differ with preferred habitat theory given the term structure of interest rates? (4 marks)
- (b) Describe the circumstances under which a company can utilize the following;
  - (i) Bonus share form of dividend payment (4 marks)
  - (ii) Regular dividend policy (4 marks)
- (c) The following information was extracted from the books of Asali Limited;
 

8% Debentures	\$250,000
Expected net income	\$100,000

 Company's equity capitalization rate 10%  
 Required; Using net income approach, compute
  - (i) The value of the firm (6 marks)
  - (ii) The overall capitalization rate (4 marks)
  - (iii) Value of the firm is debenture debt is raised to \$400,000 (6 marks)
  - (iv) Comment on the answer in (i) and (iii) above (2 marks)

## QUESTION TWO

Agency relationship is created given the principals' appointment of agent. However, there exists agency conflicts in most organization. In line with this statement, explain the causes of agency conflict given;

- (a) Shareholders and <sup>Management</sup>principals (10 marks)
- (b) Shareholders and government (10 marks)

## QUESTION THREE

### EDB 400/BHM 417

Access Bank has provided the following information regarding project A and Project B;

	<i>Project A (\$)</i>	<i>Project B (\$)</i>
Initial cost	200,000	150,000
<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 method  
(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)

#### QUESTION FOUR

- (a) Cost of capital is the integral part that most organizations cannot ignore. Support this statement. (8 marks)
- (b) Rama Company limited issues 120,000, 8% debentures of Shs.10 each. The cost of floatation is 4%. The rate of taxation applicable to the company is 55%.

Required; Compute the cost of debt capital if;

- (i) Debentures were issued at a premium of 10% (6 marks)
- (ii) Debentures were issued at a discount of 5% (6 marks)

#### QUESTION FIVE

- (a) The financial service sector by nature is considered the most of the data-intensive. In view of this, examine how big data finance project is revolutionizing finance in Kenya  
(10 marks)
- (b) Behavioral finance views investors as 'normal' but being subject to decision making biases. Support this statement. (10 Marks)