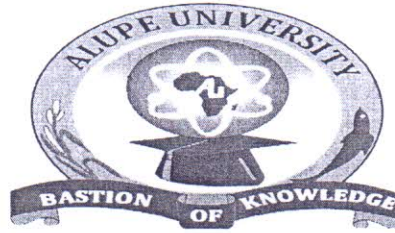


EDB 400/BHM 417



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2023 /2024 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF
EDUCATION ARTS

&

BACHELOR OF HOTEL AND HOSPITALITY
MANAGEMENT

COURSE CODE: EDB 400/BHM 417

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 13th DECEMBER 2023

TIME: 9.00 TO 12.00 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

EDB 400/BHM 417

MAIN EXAM

EDB 400/BHM 417: FINANCIAL MANAGEMENT

STREAM: B.ED /BHM

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) Describe the following terms as used in agency relationship
 - (i) Restrictive covenants (2 marks)
 - (ii) Agency costs (2 marks)
- (b) An investor has provided the following information;

Required rate of return	5%
Coupon rate of interest	9.5%
Bond worth	Shs. 500,000
Maturity	4 years

Required: Compute the value of a bond with the following details (6 marks)
- (c) In the modern world, provision of the digital financial services has been embraced by most financial institutions. Support this statement by enumerating the reasons cited as far as these services are concerned (4 marks)
- (d) Halisi Company Limited's net operating income is \$200,000. The company has issued \$800,000, 7% debentures. If the overall capitalization rate is 10%, compute the value of the company besides the equity capitalization rate using net operating income approach (6 Marks)
- (e) In the recent past, management of most organizations has thrown more weight on the corporate governance issues in financial management. In relation to this statement, enlighten on the reasons for focusing on corporate governance (10 marks)

QUESTION TWO

In Kenya, as in other countries, interest rate is the measure of the cost of borrowing by economic agents. Using the Kenya's context, analyze the:

- (a) The uses of interest rates besides measuring the cost of borrowing (8 marks)
- (b) The determinants of the interest rates (12 marks)

QUESTION THREE

- (a) The following expected cash inflows has been provided by Rangoli Enterprises relating to their two project alternatives (Amount in \$);

Year	1	2	3	4
Project C	200,000	115,000	95,000	105,000
Project D	169,500	198,000	99,400	87,000

Additional information;

- (i) The company's discount factor is 8.15% per annum
- (ii) The risk premium rates for project C and D are given as 4% and 3% respectively
- (iii) The initial cash out flow for both the projects is \$350,000.

Required; Advise the company using on the project to undertake using the risk adjusted cutoff rate technique. (10 marks)

- (b) Explain the key factors that might affect the implementation of the project selected in (a) above (10 marks)

QUESTION FOUR

- (a) Write brief notes relating to the following dividend theories;
- (i) Clientele effect hypothesis (3 marks)
 - (ii) Dividend signaling hypothesis (3 marks)
 - (iii) Cash flow hypothesis (3 marks)
- (b) There exist numerous factors that dictate the listed companies' management in coming up with decisions regarding dividend distribution Support this statement. (11 marks)

QUESTION FIVE

- (a) Demonstrate ways in which a listed company in Kenya can promote the corporate social responsibility (CSR) (8 marks)
- (b) Recently, you have been appointed as the financial manager of a leading company in Kenya. As part of your inaugural speech, elaborate on the obstacles that might be faced by the company as it strives to fulfill its financial goals (12 Marks)