

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
KISUMU CAMPUS**

**BCM 3222_FINANCIAL MANAGEMENT
FINAL EXAMINATIONS**

Time: 2 Hours

SECTION A: (COMPULSORY QUESTION)

QUESTION 1

- a. Equipment A has a cost of Kshs. 75,000 and net cash flow of Kshs. 20,000 per year for six years. A substitute equipment B would cost Kshs. 50,000 and generate net cash flow of Kshs. 14,000 per year for six years. The required rate of return of both equipments is 11 per cent. Calculate the Net Present Value for the equipments. Which equipment should be accepted and why? (10 Marks)
 - b. List FIVE types of debentured (5 Marks)
 - c. Differentiate between leasing and hire purchase as a source of finance (10 Marks)
 - d. Explain FIVE objectives of inventory management (10 Marks)
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SECTION B: (ANSWER ANY TWO QUESTIONS)

QUESTION 2

Elaborate on FIVE factors determining the dividend policy of a firm. (20 Marks)

QUESTION 3

Calculate the Economic Order Quantity (EOQ) from the following information. Also state the number of orders to be placed in a year. (20 Marks)

Consumption of materials per annum	10,000 kg
Order placing cost per order	Kshs. 50
Cost per kg. of raw materials	Kshs. 2
Storage costs	8% on average inventory

QUESTION 4

A company should finance proactively and not reactively. Do you agree? (20 Marks)

QUESTION 5

For each of the following projects compute;

- i. pay-back period
- ii. post payback profitability
- iii. post-back profitability index

Project A (7 Marks)

Initial outlay	Kshs. 50,000
Annual cash flow (after tax but before depreciation)	Kshs. 10,000
Estimated life	8 Years

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Project B (13 Marks)

Initial outlay	Kshs. 50,000
Annual cash flow (after tax but before depreciation)	
First three years	Kshs. 15,000
Next five years	Kshs. 5,000
Estimated life	8 Years
Salvage value	Kshs. 8,000