



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

SCHOOL OF BUSINESS AND ECONOMICS

**UNIVERSITY EXAMINATION FOR THE BACHELOR DEGREE IN BUSINESS
ADMINISTRATION; BACHELOR DEGREE IN EDUCATION; BACHELOR DEGREE
IN LOGISTICS AND SUPPLY MANGEMENT**

2023 /2024ACADEMIC YEAR

MAIN CAMPUS AND KISUMU CAMPUS

YEAR THREE SEMESTER ONE

YEAR FOUR SEMESTER ONE

COURSE CODE: BAB 1303

COURSE TITLE: FINANCIAL MANAGEMENT

DATE:

DURATION: 2 Hours

INSTRUCTIONS

1. Answer all questions in Section A and any other two in Section B

2. Show all your workings in the spaces provided

SECTION A (30 marks)

QUESTION ONE

- i) Identify the traditional functions of a finance officer (10 marks)**
- ii) Kilimo Ltd is evaluating an investment opportunity that would require an outlay of Ksh 100M. The annual net Cash inflows are estimated to Vary according to economic conditions as follows:-**

Economic Conditions	Probability	Cash flows (sh 000)
Very Good	0.1	35000
Good	0.45	28000
Fair	0.3	24000

Poor 0.15 18000

The Firm's rate of return is 14%, the project has expected life of 6years.

Required

Compute the expected NPV of the proposed Investment **(10marks)**

- iii) Mbaruk green Economy is a 6yr project whose initial cash outlay is sh1.5million .The project is expected to generate annual cash flows of Sh 300,000 per annum.The cost of capital is 8%.

Required: determine the NPV for the project. **(10marks)**

SECTION B (40 Marks)

QUESTION TWO

- i) With an illustration differentiate LIFO from FIFO **(10 marks)**
- ii) Maendeleo Ltd decides to buy a small office building costing ksh,200,000 and take out affixed-term loan over five years at 10% p.a.The loan is to be repaid in equal instalments starting at the end of the first year.

Required.

- a) Calculate the annual loan repayment amount **(3 marks)**
- b) Prepare the loan repayment schedule **(7 marks)**

QUESTION THREE

- i) Discuss the salient features of time value of money **(10 Marks)**
- ii) Consider a 4-year project whose initial outlay is Ksh 120,000 and the cost of capital is 10 %. Per annum. The Project is expected to generate the following:

Year	1	2	3	4
Cash Flow Ksh.	65,000	40,000	50,000	70,000

Required:

Calculate the Internal Rate of Returns (IRR) of the project **(10marks)**

QUESTION FOUR

Yandha Workshop has a project which promises the following cash flows

Cash flows	60000	80000	100000
Probability	0.3	0.4	0.3

Required

- i) the Expected Monetary Value (EMV) for the project **(3marks)**
- ii) The standard deviation for the project **(4 marks)**

- iii) The Coefficient of Variation for the project (3 marks)

XYZ Ltd is undertaking a project with the following features

- i. Initial outlay Sh 100000
- ii. Operating expenses excluding depreciation Sh 170,000 per annum
- iii. Annual Revenue Sh 200000
- iv. The Economic Life of the project is 5 years and the cost of capital is 10%

Required

Carry out a sensitivity analysis in respect of the features (i) (ii) (iii) respectively in isolation and ignore taxation. (10marks)

QUESTION FIVE

Mr. Babu Kazi is considering giving up his paid employment and going into business on his own account. He is considering buying a quarry pit with a "life" of about 35yrs. To buy this business he would have to pay sh.2375000 now. Mr. Kazi wishes to retire in 20yrs time. He predicts the net cash of operating receipts from this business will be sh.625, 000 per annum for the first time 15yrs and sh.500,000 p.a for the last 5yrs. He thinks that the business could be sold at the end of the 20yrs period for sh.750, 000. Additionally, he estimates that certain capital replacements and improvements would be necessary and this should amount to sh.50, 000 p.a for the first 5yrs sh.75,000 p.a for the next five years, sh.100,000p.a for the next 7yrs and nothing for the last 3yrs. This expenditure would be incurred at the start of each year.

Mr. Kazi has excluded any compensation to himself from the above data. If he should purchase the business, however, he would have to leave his present job which he earns sh.250, 000 a year. To finance the purchase of this business, he would have to realize his present savings, which are invested to yield a return of 10% before tax and have a comparable risk factor.

Required.

- a) Advice Mr. Kazi as to whether or not it is advisable to purchase the business in the right of information given. Ignore income tax.(6 marks)
- b) Is there any additional information which you would have liked to have available to you before giving advice to Mr. Kazi. (4marks)

- iii) Distinguish Financial Structure from Capital structure

