



JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION

**UNIVERSITY EXAMINATION FOR BACHELOR OF SCIENCE IN
AGRIBUSINESS**

3RD YEAR 1ST SEMESTER 2024/2025 ACADEMIC YEAR

SIAYA CAMPUS

COURSE CODE: BEB9302

COURSE TITLE: Financial Management

DATE:

TIME: 2.00 HOURS

INSTRUCTIONS:

- 1. Answer Question ONE (Compulsory) and ANY other 2 Questions**
 - 2. Candidates are advised not to write on the Question paper**
 - 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**
-

QUESTION ONE (30 MARKS)

- a) Discuss the advantages of cash budgeting as a means of managing organizations cash (6 marks)
- b) Enumerate the role of balance sheet and cash flows in decision making process (6 marks)
- c) Examine the objectives of a business firm (6 marks)
- d) Explain in details the various types of debentures (6 marks)

- e) Identify various stages of capital budgeting process (6 marks)

QUESTION TWO (20 MARKS)

a) Cash flow estimate for two projects P & Q are given below: The firm cost of capital is 10%.

Project P for the year 1 to 5 is expected to generate Ksh.160,000 , 400,000, 640,000, 1,040,000 and 1,576,000

Project Q for the years 1 to 5 is expected to generate Ksh. 1,600 000, 880,000, 480,000, 232,000 and 80,000

P and Q require initial investment of 2.24 million and 2.40 million respectively.

Calculate the NPVs for each of the project and determine which project the firm should accept, if they are:-

- i) Mutually exclusive
- ii) Independent project (11Marks)

b) Examine the main types of financial appraisal. Give local examples to support your answer (3 Marks)

c) Highlight the steps involved in conducting cost benefit analysis (6 Marks)

QUESTION THREE (20 MARKS)

a) Discuss in details differences between

- i) Debt Capital and Equity Capital (6 marks)
- ii) Money market and Capital market (6 marks)

b) Enumerate why in your opinion, Time value of Money (TVM) is important (3 Marks)

c) Using the formula $FV = PV \times [1 + I]^N$ calculate the following: Future value (FV) of an asset is given as ksh 2000, present value (PV) is ksh 800 with an interest rate (I) of 11% of the present value. The period (N) indicated for its investment is 10 years

(5 Marks)

QUESTION FOUR (20 MARKS)

a) Company ABC Limited is considering the purchase of a new machine. Two alternative machines, Pesi and Upesi, which will cost Sh.8, 000,000each are available in the market. The company's cost of capital is 12%. The cash flow after taxation of each machine are as follows:

Year	Cash flow	
	Pesi	Upesi
	Sh.	Sh.
1	600,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,400,000	1,600,000

Assume that the company's cost of capital is 12%.

Required:

- i) Determine the Payback period for each machine (4 marks)
 - ii) Compute the net present value of each machine. (8 marks)
 - iii) Calculate the profitability index of each machine (3marks)
 - iv) Advise the management which machine to invest in and why (2 mark)
- b) Explain the limitations of the goal of profit maximization. (3 marks)

QUESTION FIVE (20 MARKS)

- a) Identify the objectives of working capital management and discuss the central role of working capital management in financial management (8 marks)
- b) Suggest and discuss any three policies that a Limited Company may be using in the management of the working capital (6 marks)
- c) A firm may adopt a conservative policy or an aggressive policy in financing its working capital needs. Clearly distinguish between:
 - i) A conservative policy and (3 marks)
 - ii) An aggressive policy. (3 marks)