



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BIOLOGICAL, PHYSICAL, MATHEMATICS AND ACTUARIAL**  
**SCIENCES**  
**UNIVERSITY EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE**  
**ACTUARIAL**  
**4<sup>th</sup> YEAR 1<sup>st</sup> SEMESTER 2023/2024 ACADEMIC YEAR**  
**REGULAR (MAIN)**

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**COURSE CODE: WAB 2407**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**EXAM VENUE: STREAM: EDUCATION, ACTUARIAL**

**DATE: EXAM SESSION:**

**TIME: 2.00 HOURS**

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**Instructions:**

- 1. Answer question one (compulsory) and any other two 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 1 [30 marks]**

- a) Define the term Financial Management. [2marks]
- b) State and explain the FOUR annual financial statements. [4marks]
- c) If the risk-free rate of return is 5%, the equity risk premium derived from the market is 7% and Fryday plc, an ungeared company (which pays no tax), has a beta of 1.2, what would be:
  - (i) the expected return from the market. [1mark]
  - (ii) the expected return from shares in the company. [1mark]
  - (iii) the cost of capital used by the management in evaluating project. [2marks]
- d) Prove that if the price movements of a stock are perfectly positively correlated with the market and have the same standard deviation as the market, then the expected return from that stock must be equal to the expected return from the market [3marks]
- e) State the limitations of company accounts [5marks]
- f) State the FOUR assumptions of CAPM [4marks]
- g) Differentiate between specific risk and systematic risk [2marks]
- h) Describe the budget as a management tool. [4marks]
- i) Differentiate between profitability ratio and efficiency ratio [2marks]

**Question 2 [20marks]**

- a) Give vivid descriptions of a company structure. [5marks]
- b) Give detailed explanations of company financing. [5marks]
- c) State and explain FIVE sources of systematic risk. [5marks]
- d) Explain FIVE principles of taxation. [5marks]

**Question 3 [20marks]**

- a) State and explain 10 objectives of Financial Management. [10marks]
- b) Discuss the importance of financial statement as a planning tool [10marks]

**Question 4 [20marks]**

As at 31 December 2010 the statement of financial position of a company was as follows:

	£	£
<b>ASSETS</b>		
<b>Non-current assets</b>		
Cost	300,000	
less depreciation	(90,000)	
		<b>210,000</b>
<b>Current assets</b>		
Inventories		62,500
Trade receivables		10,650
Cash		12,825
		<b>85,975</b>
<b>Total assets</b>		<b>295,975</b>
<b>EQUITY AND LIABILITIES</b>		
Ordinary share capital		100,000
Reserves		39,350
<b>Total equity</b>		<b>139,350</b>
<b>Non-current liabilities</b>		
12% Debenture loan		150,000
<b>Current liabilities</b>		
Trade payables		6,625
<b>Total liabilities</b>		<b>156,625</b>
<b>Total equity and liabilities</b>		<b>295,975</b>

During 2011 the following items appeared in the company's accounting records:

	£
Sales	190,750
increase in cash	3,950
increase in inventories	9,250
increase in trade payables	2,250
decrease in trade receivables	1,700
rent of factory	30,000
costs of raw materials	45,000
salaries and wages	55,000
miscellaneous expenses	2,750
purchase of non-current assets	40,000

The non-current assets are being depreciated on a straight-line basis over a period of ten years including the year of purchase. During 2011 interest was paid on the debenture stock but no dividends were paid on the ordinary share capital. Assume the rate of corporation tax is 30%, but the company did not pay its tax during 2011.

Prepare:

- (i) the income statement for 2011 [8marks]  
(ii) the statement of financial position as at 31 December 2011. [12marks]

**Question 5 [20marks]**

- a) From the information provided in question 4 above, calculate: [8marks]  
(i) Current ratio  
(ii) Stock turnover  
(iii) Profit margin  
(iv) Return of capital employment
- b) If the risk-free rate of return is 3% and the equity risk premium is 5%, what is the cost of equity for: [6marks]  
(i) Company A with a beta of 1.7  
(ii) Company B with a beta of 1  
(iii) Company C with a beta of 0.4
- c) i) State THREE roles of the main institutions in financial markets. [3marks]  
ii) State THREE principles of group accounts in financial management [3marks]