



## **UNIVERSITY EXAMINATIONS**

**FOURTH YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF  
BACHELOR OF SCIENCE IN ACTUARIAL SCIENCE  
FIRST SEMESTER 2022/2023  
[SEPTEMBER-DECEMBER, 2022]**

**BACS 402: PRINCIPLES OF FINANCIAL MANAGEMENT**

**STREAM: Y4S1**

**TIME: 2 HOURS**

**DAY: THURSDAY, 9:00 – 11:00 AM**

**DATE: 15/12/2022**

**INSTRUCTIONS**

- 1. Do not write anything on this question paper.***
- 2. Answer question ONE and any other THREE questions.***

**QUESTION ONE (COMPULSORY)**

- Define financial management and explain any FIVE functions of a finance manager. (6 marks)
- Explain the features of a sound appraisal technique? (5 marks)
- Explain the importance of financial management for an organization (4marks)
- Briefly explain the role of working capital management (2marks)
- Explain the features of sound capital structure (3 marks)
- f) Highlight any FIVE Application of ratios (5 marks)

**QUESTION TWO**

- Explain any FOUR Classifications of Debentures as a source of long term finance. (8 marks)
- Explain the reasons behind the fast development of plastic Money in Kenya (7 marks)

### QUESTION THREE

- a) Explain any FIVE Factors that influence the cost of finance (5 marks)  
b) A company was recently formed to manufacture keroro in mini- Markets. It has the following capital structure in market value terms.

|                   |            |
|-------------------|------------|
| Equity shares     | Ksh        |
| 320,000           | 5,000,000  |
| Preference shares | 2,000,000  |
| Debentures        | 6,000,000  |
| TOTAL             | 16,000,000 |

A study of companies in this line of business show that the required rate of return on equity is about 17%. The new company's debt is currently yielding 13% and its preferred stock yields 12%

#### Required

Weighted average cost of capital (10 marks)

### QUESTION FOUR

- (a) Explain the dangers of holding excessive working capital. (3 marks)  
(b) Explain the four categories of inventory costs. (4 marks)  
(c) Identify and explain any FOUR methods of easing cash shortages in business entities. (8 marks)

### QUESTION FIVE

A company is considering two mutually exclusive projects requiring an initial cash outlay of Shs 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cash flow expected to be generated by the projects are as follows:

| YEAR          | 1     | 2     | 3     | 4     | 5     |
|---------------|-------|-------|-------|-------|-------|
| Project A Shs | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Project B Shs | 6,000 | 3,000 | 2,000 | 5,000 | 5,000 |

#### Required:

Calculate for each project

- The payback period
- The average rate of return
- The net present value

Which project should be accepted? Why? (15 Marks)