



KISII UNIVERSITY
UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF THE DEGREE OF
BACHELOR OF ARTS IN PUBLIC ADMINISTRATION AND POLITICAL SCIENCE
SECOND SEMESTER 2021/2022
[JUNE-SEPTEMBER, 2022]**

BUST 412: FINANCIAL MANAGEMENT

STREAM: Y4 S2

TIME: 2 HOURS

DAY: FRIDAY, 3:00 – 5:00 PM

DATE: 09/09/2022

INSTRUCTIONS

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

SECTION A

QUESTION ONE

- Define the term Financial Management. (4 marks)
- Identify and explain four functions of financial management. (5 marks)
- Explain the concept of stakeholder theory. (5 marks)
- Explain the term “Agency Theory” (3 marks)
- Explain three reasons why shareholders do not participate in the management of their firm. (3 marks)
- Identify and briefly explain four possible agency relationships in finance. (4 marks)
- Describe Corporate Social Responsibility as given in financial management. (3 marks)
- Explain the concept of Ethics in financial management. (3 marks)

SECTION B

QUESTION TWO

- Distinguish between the following terms as used in business finance:
 - Finance lease and operating lease. (2 marks)

- (ii) Pure discount bonds and floating rate bonds (2 marks)
- (iii) Margin purchase and short selling (2 marks)
- (iv) Factoring and pledging (2 marks)

b) Identify and explain four factors that should be taken into account by a businessman in making the choice between financing short term and long term sources of finance. (4 marks)

c) Explain three advantages of convertible bonds from the point of view of the borrower. (3 marks)

QUESTION THREE

- a) Distinguish between compounding and discounting techniques used in finance. (4 marks)
- b) Determine the future value of a sh.100000 investment made at the end of every year for 5 years. Assume the required rate of return is 12 % compounded annually. (4 marks)
- c) Assume you were to receive sh.172800 three years from now on an investment and the required rate of return is 20 %. What amount would you receive today to be indifferent? (4 marks)
- d) The following is a mixed stream of cash flows occurring at the end of year.

Year	Cash flow
	Sh000
1	400
2	800
3	500
4	400
5	300

If a firm has been offered the opportunity to receive the above amounts and its required rate of return is 9 %, what is the most it should pay for this opportunity? (3 marks)

Question four

- a) Explain the concept of “ amortization schedule” (3 marks)
- b) Determine the equal end of year payment necessary to amortize fully a sh.600000, 10 % loan over 4 years. Assume payment is to be rendered:
 - (i) Annually (4 marks)
 - (i) Semi-annually (4 marks)
- c) Malikia Guyo borrowed sh.1000000 from Huduma Bank at an annual compound interest of 14 % on the reducing balance. The loan was

repayable in annual instalments over a period of four years. The instalments were payable at end of the year.

Required:

A loan amortization schedule

(4 marks)

QUESTION FIVE

- a) With appropriate examples explain the term ratio analysis (10 marks)
- b) A company issues 10000 equity shares of Ksh 100 each at a premium of 10 %. The company has been paying 15 % dividend to equity shareholders for the past 10 years and expects to maintain the same in the future.

Required:

- i) Compute the cost of capital (3 marks)
- ii) Determine the effect of change if the market value of equity share is Ksh 180 (2 marks)

QUESTION SIX

- a) Identify and explain the critical issues in dividend policy (5 marks)
- b) Identify and explain five factors affecting dividend policy in financial institutions (5 marks)
- c) Distinguish between debenture shares preference shares and ordinary shares (5 marks)