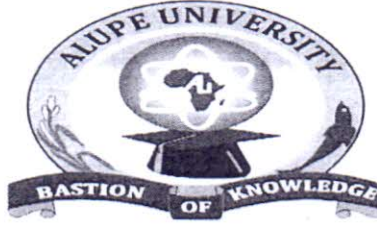


BBM 414



OFFICE OF THE DEPUTY VICE CHANCELLOR
ACADEMICS, RESEARCH AND STUDENT AFFAIRS

UNIVERSITY EXAMINATIONS

2024 /2025 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 414

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 7TH APRIL 2025

TIME: 8 TO 11 A.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

BBM 414

MAIN EXAM
BBM 414: FINANCIAL MANAGEMENT

STREAM: BBM

DURATION: 3 Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer Question **ONE** and any other **TWO** questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

QUESTION ONE

- (a) Validate the fact that interest rate is a fundamental component of any thriving economy (8 Marks)
- (b) Describe the significant determinants of dividend decisions made by quoted companies in Kenya (10 Marks)
- (c) The cash inflows for Bidco Company limited are found to be sensitive under different circumstances given the element of uncertainty. As a result, the company has provided the following information relating to investment K and L (Amount in \$):

Forecasted cash inflows per annum for 4 years	Investment K	Investment L
Optimistic	90,000	105,000
Most Likely	55,600	45,000
Pessimistic	60,000	50,200
Initial cash outlay	212,500	212,500

Required; Advise the company on the investment to undertake using sensitivity technique if the target rate of return is 12.5% per annum (12 Marks)

QUESTION TWO

In the year 2024, ABC limited took a loan from NCBA bank of \$100,000 to invest on a mega investments in Kenya. Following the new agency relationship created, ascertain the following;

- (a) Actions by ABC limited shareholders through management that could lead to a 'toxic' relationship between them and NCBA bank (12 Marks)
- (b) The restrictive covenants NCBA bank may impose so as to protect their interest as part of the resolution of conflicts with ABC limited shareholders through management. (8 Marks)

QUESTION THREE

(a) The following information relates to Alokz Investment Company Limited;

7% debentures	\$800,000
Net operating income	\$200,000
Overall firms' capitalization rate	10%

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Required; Using the net operating income approach, compute

- (i) The value of the firm (3 Marks)
 - (ii) The cost of equity (3 Marks)
 - (iii) Comment on the effect on the cost of equity if debenture debt is increased to \$1,200,000 (4 Marks)
- (b) Explain the need for cost of capital by businesses and financial analysts within Kenya and beyond. (10 marks)

QUESTION FOUR

- (a) Explain the key reasons cited by financial managers as far as maximization of firm's net worth is concerned. (8 Marks)
- (b) Despite profit maximization being an essential primary financial goal, it's associated with diverse drawbacks. Support this statement. (12 marks)

QUESTION FIVE

- (a) Distinguish the following concepts as used in crowd funding and blockchain technology:
 - (i) Equity based versus donation-based crowd funding (4 Marks)
 - (ii) Public versus federated block chain (4 Marks)
- (i) The use of cryptocurrencies offers threats not only to individuals but also firms despite taking the world by storm in the recent past. Justify this statement. (12 Marks)