

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DIPLOMA IN LEADERSHIP
AND PUBLIC ADMINISTRATION**

LAPA 0260: BASIC FINANCIAL MANAGEMENT

STREAMS: LAPA

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 11/4/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTION: ANSWER QUESTION ONE AND ANY TWO QUESTIONS

QUESTION ONE

- (a) Describe the agency problem and its application in companies in Kenya. [10 marks]
- (b) Compute the applicable period if ksh 63000 is invested annually at 12% interest in order to yield kshs 1 million eventually. [5 marks]
- (c) Define working capital management and explain the various dangers of holding excessive working capital. [5 marks]
- (d) An investor invested sh 800,000 in a fund whose interest rate was 10% for a period of 3 years. Compute the value of the fund at the end of 3 years if the interest was to be earned as follows; annually, semiannually, quarterly and continuously. [10 marks]

QUESTION TWO

Board of directors of companies in Kenya have been accused of failure to protect the shareholders interest. Discuss the above statement in light of corporate governance and agency theories. [20marks]

QUESTION THREE

- (a) Discuss the various functions of a financial manager. [10 marks]
- (b) List and explain the various importances of financial management. [10 marks]

QUESTION FOUR

(a) XYZ Company has mutually exclusive projects with the following cash flows:

Year	Project A	Project B
0	Ksh.	Ksh.
1	(25000)	(11,000)
2	1600	1200
3	2000	1600
4	4000	2500
5	1000	4000
6	5000	3000
	7000	3000

The opportunity cost of capital is 10%

Required:

Advice on the project to be invested using; payback period, net present value, internal rate of return and profitability index. [20 marks]
