

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF AGRIBUSINESS MANAGEMENT

**AGBM 413: FINANCIAL MANAGEMENT IN BUSINESS**

***STREAM:***

***TIME: 2 HRS***

***DAY: FRIDAY [2.30 P.M-4.30 P.M]***

***DATE: 6/02/2026***

**THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**

**INSTRUCTIONS**

- (i) Attempt Question One and any other Two Questions
- (ii) Do not write anything on your question paper

**QUESTION ONE**

- (i) Explain the role of a financial manager in an organization **(10 marks)**
- (ii) Using examples, differentiate between ordinary shares and corporate bonds projects **(10 marks)**
- (iii) Explain the concept of agency in Modern Corporation, and suggest how firms can reduce the principle-agent problem. **(10 marks)**

**QUESTION TWO**

Njeru Njeke Limited has the following capital structure:

Source	Amount
Ordinary Shares	6,000,000
10% Debentures	3,000,000
8% preference shares	2,000,000
7 % Bank Loan	<u>4,000,000</u>
	<u>15,000,000</u>

The company has been paying ordinary dividend of 15% per annum and expects equity to grow at 8% per annum.

Kenya's corporate tax is currently 35%.

**Required:**

- (i) Calculate the specific cost of each source of capital **(4 Marks)**
- (ii) Compute the weighted average cost of capital for the firm. **(7 marks)**
- (iii) Explain the issues which influence the capital structure of a company **(9 marks)**

**QUESTION THREE**

Riva Petroleum Ltd shares are selling at sh.42 with a dividend per share of sh.2. Its ratio of dividend to earnings per share is 0.45 and return on equity of 0.12, which is likely to be constant in future.

- (a) Determine:
  - (i) Dividend yield **(2 marks)**
  - (ii) Dividend growth rate **(2 marks)**
  - (iii) Plowback ratio **(2 marks)**
  - (iv) Price to earnings ratio **(2 marks)**

- (b) Mary Musembi has approached Chase Bank to borrow sh.32 million loan at 15% per annum for 7 years. He is expected to repay the loan in 7-equal instalments over the loan period. Prepare for him a loan amortization schedule to assist him in budgeting.

**(10 marks)**

**QUESTION FOUR**

ABC Ltd is considering investing in three projects, A, B, and C which will require an initial investment of sh. 10,000. The cash flows estimates for the projects are as follows:

year	Project A	Project B	Project C
1	3000	1000	700
2	2000	2500	3500
3	1500	3000	3500
	1800	900	2100

The firm’s cost of capital is 10 percent

**Required:**

- (i) Compute the NPV, IRR, and PI for each project and rank them under each criterion. **(12 marks).**
- (ii) If the projects are mutually exclusive, which project should the firm accept, and why? **(1 marks)**
- (iii) If the projects are independent, and the firm has funds of sh.7,000, which projects should the firm accept, and why? **(1 marks)**
- (iv) Do Kenyan firm management maximize the wealth of shareholders? **(6 marks)**

**QUESTION FOUR**

- (a) What are the assumptions underlying portfolio theory **(7 marks)**
- (b) Between book-value and market-value system of weighting the capital of a firm, which one would you prefer over the other, and why? **(7 marks)**
- (c) Discuss wealth maximization criterion as the main objective a firm should pursue while justifying why? **(6 marks)**