



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

THIRD YEAR FIRST SEMESTER

**SCHOOL OF NATURAL RESOURCES, TOURISM
AND HOSPITALITY MANAGEMENT**

BACHELOR OF TOURISM MANAGEMENT

COURSE CODE: BTM 3107

**COURSE TITLE: FINANCIAL MANAGEMENT
AND CONTROL**

DATE: 8TH APRIL, 2022

TIME: 0830-1030

INSTRUCTIONS TO CANDIDATES

Answer **ALL** questions in section **A** and any other **Two** in section **B**.

This paper consists of 2 printed pages. Please turn over

SECTION A: COMPULSORY (30 MARKS)

QUESTION ONE (30 MARKS)

- a) Agency theory provides a basis for explaining the relationship between management of the firm and the shareholders and between shareholders and debt holders

Required;

- i. What cost arise from the principal agency relationship as the one between shareholders and management **(9 Marks)**
 - ii. How do the actions of shareholders of a limited company affect the market value of a bonds? Explain **(5 Marks)**
 - iii. Using principles from agency theory, explain how multinationals are able to monitor performance of their managers posted around the world and ensure that their financial goals are achieved. **(6 Marks)**
- b) K is contemplating purchasing a 3 year bond worth Sh 40,000 carrying a nominal coupon rate of interest of 10% .K required rate of return is 6 %, what should he be willing to pay now to purchase the bond if it matures at par? **(5 Marks)**
- c) Discuss five factors that influence the dividend decisions of a firm **(5 Marks)**

SECTION B: ANSWER ANY TWO QUESTIONS

QUESTION TWO (20 MARKS)

The following information has been extracted from the published accounts of ABC Corporation Limited, a company quoted on the Nairobi Securities Exchange.

	Shs.
Net profit after tax and interest	990,000
Less: dividends for the period	<u>740,000</u>
Transfer to reserves	250,000
Accumulated reserves brought forward	<u>810,000</u>
Reserves carried forward	<u>1,060,000</u>
Share capital (Sh.10 par value)	<u>Sh.8, 000,000</u>

Market price per share now Ksh12

Required

a) What is meant by a company quoted on the Nairobi Securities Exchange?

(4 Marks)

b) Calculate for ABC Corporation Limited the following ratios and indicate the importance of each to Miss Ann, a Shareholder:

i) Earnings per share. **(4 marks)**

ii) Price earnings ratio **(4 marks)**

iii) Dividend yield **(4 marks)**

iv) Dividend cover **(4 marks)**

QUESTION THREE (20 MARKS)

Consider the returns of two securities A& B which depend on the states of nature with the following probabilities

State	Probability	Returns %	
		A	B
Recession	0.3	12	6
Stable	0.4	15	7.5
Expansion	0.3	10	5

Required:

a) The expected returns of A & B **(2 Marks)**

b) The standard deviation of the individual securities **(4 Marks)**

c) The correlation coefficient between the two securities returns and comment **(6 Marks)**

d) The portfolios expected returns for a portfolio consisting of 60% of A and 40% of B

(4 Marks)

e) The risk of the portfolio in (d) above **(4 Marks)**

QUESTION FOUR (20 MARKS)

a) Discuss any five factors that influences a business cost of finance **(10 Marks)**

b) Define financial management and explain four roles of a finance manager **(10 Marks)**

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