



Riara School of Business
Nurturing business innovators

JANUARY-APRIL 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY PROGRAMME

RFN 201: PRINCIPLES OF FINANCE

DATE: APRIL 2023

TIME: 2 HOURS

INSTRUCTIONS

- i) **Answer question one and any other two**
 - ii) **Marks allocated to each question are shown at the end of the question**
 - iii) **Arrange your work neatly and indicate the questions answered in the Examination booklet**
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QUESTION ONE: COMPULSORY (30 MARKS)

- a) Discuss any TWO differences between money markets and capital markets **(6 marks)**
- b) Explain any THREE internal controls for managing cash in a University **(6 marks)**
- c) Describe THREE key roles of a finance manager of a Company that operates a soft drinks processing plant in industrial area, Nairobi County, Kenya **(6 marks)**
- d) Discuss the principle of shareholder wealth maximization as the cardinal rule that guides finance **(6 marks)**
- e) Explain the scope of informal finance clearly indicating how the lending practices are managed **(6 marks)**

(30 MARKS)

QUESTION TWO

- a) An investor is keen on investing in shares and bonds. She visits a stock market and subsequently comes across two securities (X and Y) that look promising compared to ten others in the same market. Upon their evaluation, she finds their risks and returns as follows:

	<u>X</u>	<u>Y</u>
Expected returns.....	15%	20%
Standard deviation....	0.35	0.13

Required: Advice the investor on the best investment option based on the contributions of Markowitz (1952) on risk diversification and portfolio selection. **(6 marks)**

- b) Differentiate between primary markets and secondary markets **(6 marks)**
- c) ABC limited Common stocks have been paying dividends for the last 5 years. The security's prices and dividends are shown below

Year	Dividends	Prices
1	Sh.5.50	sh. 100
2	Sh.6.00	95
3	Sh.6.15	105
4	Sh.7.30	100
5	Sh.7.00	94

Required:

Using the market model, compute the returns of the stocks for year 2, 3, 4 and 5 **(8 marks)**

(20 marks)

QUESTION THREE

- a) Describe the scope of personal finance in the context of financial management for individuals and households **(4 marks)**

- b) Explain the financial risk management framework that should guide a finance manager of a University in hedging the institutions financial risk **(6 marks)**
 - c) Discuss any FOUR factors which influence a company's dividend policy **(6 marks)**
 - d) Discuss TWO sources of revenue in public finance for a developing country such as Kenya **(4 marks)**
- (20 marks)**

QUESTION FOUR

- a) Discuss any THREE functions of Central Bank of Kenya as the main regulatory agency for money markets **(6 marks)**
 - b) Compute the present value of an investment that pays 8% interest and promises sh. 120,000 in two years and sh. 200,000 in three years time **(6 marks)**
 - c) Evaluate FOUR internal controls that a finance manager could adopt to manage Furniture of a Company that has several branches across the Country **(4 marks)**
 - d) Explain any TWO principles of public finance management in view of Chapter 13 of the Kenya Constitution 2010 **(4 marks)**
- (20 marks)**