

**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

HIGHER DIPLOMA IN HUMAN RESOURCE MANAGEMENT

**BFI 3101: FINANCIAL MANAGEMENT**

END OF SEMESTER EXAMINATIONS

**SERIES: APRIL SERIES**

**TIME: 2 HOURS**

**INSTRUCTIONS TO CANDIDATES:**

- This paper consists of **FIVE** Questions.
- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do **NOT** Write on the question paper.
- You are only allowed to have writing materials, an Answer booklet and a scientific non programmable calculator in the examination room.
- Mobile phones are not allowed in the examination room.
- Cheating leads to disqualification.
- This paper consists of Four printed pages***

### QUESTION ONE (COMPULSORY)

- a. You are the financial manager of Savinco Manufacturers Ltd. The company plans to expand its operations and intends to obtain funds from an external source.

**Required**

Advise the management on the types of Long Term sources of finance that the company can obtain to facilitate the planned expansion. **(10 marks)**

- b. Identify and explain briefly the major financial markets for securities in Kenya **(10 marks)**
- c. The Capital Structure of any company is key to the attaining of its objectives.

**Required:**

Identify FOUR stages in Capital Budgeting **(4 marks)**

- d. State and briefly describe THREE methods of asset valuation. **(6 marks)**

### QUESTION TWO

- a. XYZ Ltd issued 10% Sh. 400,000 convertible debentures. The terms of conversion are 4, Sh.1 ordinary shares for every Sh. 5 of stock held. The terms of conversion are:
- When debentures were issued Sh. 2
  - When debentures were converted the market price was Sh. 2.5

**Required**

- Conversion ratio **(2 marks)**
  - Conversion value **(4 marks)**
  - Conversion premium **(4 marks)**
- b. Explain the role of Capital Markets Authority **(10 marks)**

### QUESTION THREE

- a. State the functions of Nairobi Securities Exchange **(10 marks)**
- b. Company ABC Ltd is contemplating the purchase of a new machine. Two alternative machines, A and B, which will cost Sh.6,000,000 and Sh.7,000,000 respectively are available in the market. The cash flow after taxation of each machine are as follows:

Year	Cash flows	
	A Sh.	B Sh.
1	600,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,400,000	1,600,000

**Required:**

Using the Net Present Value Method (NPV), advise the management of ABC Limited on which machine to purchase and why **(10 marks)**

### QUESTION FOUR

- a. Central Bank of Kenya plays a crucial role in the economy. Elaborate **(10 marks)**
- b. As at 31 December 2015, the financial statements of two companies revealed the following information:

Company	Price Per Share (Sh.)	Earnings Per Share (Sh.)	Dividend Per Share (Sh.)
Matawi Ltd	160	8	8
Mizizi Ltd	270	18	9

For both Matawi Limited and Mizizi Limited, determine and compare:

- i. Dividend yield **(2½ marks)**
- ii. Earnings Yield **(2½ marks)**
- iii. Price/Earnings ratio **(2½ marks)**
- iv. Dividend cover **(2½ marks)**

#### **QUESTION FIVE**

- a) Define agency relationship from the context of a public limited company and briefly explain how this arises. **(5 marks)**
  
- b) Explain the various restrictive covenants that shareholders must put in place in order to protect their debt **(15 marks)**