

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	B
	Sh.	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)**