TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATION S

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN LOGISTICS AND TRANSPORT MANAGEMENT

BAC 2212/2214: FINANCIAL MANAGEMENT

SEMESTER EXAMINATION

MAY 2016 SERIES

2 HOURS

Instructions to candidates:

This paper consists of FIVE questions

Answer question ONE (compulsory) and any other TWO questions

TIME: 2 HOURS

Question ONE

(a) Discuss the objective of capital structure **(6 marks)**

(b) What are the significance of the cost of capital **(6 marks)**

(c) The equity capital is cost free, do you agree? Discuss **(4 Marks)**

(d) The following is capital structure of Bashar Ltd as at 31st December 2015

	Shs. million
Ordinary share capital shs. 10 per value	400
Retained earnings	200
10% preferences share capital of shs. 20 per value	100
12% debenture shs.100 per value	200
Total	900

Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value MPS = Par value
3. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

Required

i. Determine the WACC of the firm using the book value (10 marks)
ii. What are the weakness associated to WACC (4 marks)

. **(14 Marks)**

QUESTION TWO

Capital budgeting decisions may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years several methods are used to evaluate these decisions. By giving examples describe the following capital budgeting techniques.

a) Discounted cash flow methods **(2 Marks)**

b) Non-discounted cash flow methods **(2 Marks)**

c) Explain the following the following types of investments decisions

  i. Mutually Exclusive Investments **(2 Marks)**
  ii. Independent Investments **(2 Marks)**
  iii. Contingent Investments **(2 Marks)**

d) Dawanox Ltd intends to undertake two mutually exclusive projects requiring initial cash outlay of Kshs. 6000,000 each. The projects have a lifespan of 5 years and the discount rate is 20%. The projects are expected to generate the following cash inflows.

	Cash flow	
Year	**Project X**	**Project Y**
	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:

i. the payback period **(3 Marks)**

ii. The Net Present Value (NPV) **(5 Marks)**

iii. Profitability index **(2 Marks)**

QUESTION THREE

(a) Define financial management **(2 Marks)**

(b) Discuss the objectives of financial management. **(6 Marks)**

(c) Discuss the role of financial manager. **(6 Marks)**

(d) Explain the importance of financial management. **(6marks)**

QUESTION 4

a) In relation to capital markets, differentiate between the term money market and capital market **(6 marks)**

b) Discuss the functions of financial markets **(6 marks)**

Wananchi ltd has a five year project whose cost is Kshs 500,000 and scrap value of Kshs 100,000. The Tax rate is 50% and depreciation is on straight line. The Stream of income before depreciation and taxes are as follows:

Year 1	100,000
Year 2	120,000
Year 3	140,000
Year 4	160,000
Year 5	200,000

Let tax = 50% and depreciation straight line. Calculate the accounting rate of return.

Required

Compute the Average Rate of Return (ARR) of the project **(8 marks)**

QUESTION 5

a) Describe FOUR reasons for the change in the value of money over time. **(2 Marks)**

b) Discuss the following dividend policies

I. Regular dividend policy

II. Stable dividend policy

III. Irregular dividend policy

IV. No dividend policy