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

DO NOT WRITE ON THE QUESTION PAPER.

QUESTION ONE (Compulsory]

a) What are the similarities between **Debt** and **Preference share** capital? 8 marks
b) List four advantages of **overdraft** finance 8 marks
c) Describe the factors to consider when making a financing decision. 10 marks
d) The par value of an ordinary share is $20 but the market price is $36. Dividends are paid at 30% and the floatation cost is $6. The growth rate is 10%. Calculate the cost of ordinary share.

4 marks

QUESTION TWO

What are the differences between **Debt finance** and **Ordinary share capital** or Equity finance?
10 marks

The following is the capital structure of Kakira Idinda Sukari Ltd as at 31 December 2015:

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Ordinary share capital (par value $20}	1600000
8% Preference share capital (par value $30)	1200000
20% Preference share capital (par value $40)	800000
20% Debentures	400000

Additional information at 31 December2015:

	MARKET PRICE $
Ordinary shares	$30 per share

8% Preference shares	$24 per share
20% Preference shares	$40 per share
20% Debentures	$1000000

The Corporation tax rate is 30%

Ordinary shares have a dividend of $6 per share with a growth rate of 10%

REQUIRED

a) Cost of Ordinary share capital — 2 marks

b) Cost of 8% Preference share capital — 2 marks

c) Cost of 20% Preference share capital — 2 marks

d) Cost of 20% Debentures — 2 marks

e) Weighted average cost of capital — 12 marks

QUESTION THREE

Alif and Bei want to invest in a project which costs $ 80000 and a scrap value of $ 20000.

The stream of cash flows before depreciation and taxes plus the present value discount factors are given below:

Year	cash flows $	10% d.factor	5% d.factor
1	16000	0.9091	0.9524
2	18000	0.8264	0.9070
3	20000	0.7513	0.8638
4	21000	0.6830	0.8227
5	30000	0.6209	0.7835

Taxation is 40%

Depreciation on straight line basis is $ 12000

Cost of capital is 10%

Required:

a) Compute the Net Present Value {NPV} 10 marks

b) Compute the Internal Rate of Return {IRR| and advice accordingly. 10 marks

QUESTION FOUR

a) List the difference between **Debt finance** and **Ordinary share** capital {Equity Finance}

10 marks

b) Explain why it may be difficult for small business owners to raise finance in Kenya.

10 marks

QUESTION FIVE

Write brief explanatory notes on the following:

a) Cost of capital 4 marks

b) Sale and lease back 4 marks

c) Payback 4 marks

d) Factoring and Invoice discounting 4 marks

e) Time value of money 4 marks