



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY

BAC 2212: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages.

QUESTION 1 (Compulsory)

- a) Give **SIX** factors taken into consideration when formulating a dividend policy. **(12 marks)**
- b) Describe **FOUR** non-financial objectives that a company might pursue that have the effect of limiting the achievement of the financial objectives. **(8 marks)**
- c) Give **FIVE** internal sources of finance for a company. **(10 marks)**

QUESTION 2

- a) What are the **SIX** advantages of using ordinary share capital in financing? **(12 marks)**
- b) List the differences between debt-finance and ordinary share capital (equity finance). **(8 marks)**

QUESTION 3

Alif-Bei Ltd is contemplating investing in a project with an initial investment cost of £1,000,000. The project is expected to have an economic life of 4 years. It is the policy of the company to depreciate its assets on a straight-line basis. The following are the expected earnings before depreciation and taxes from the project during its economic life.

Year	Earnings before depreciation and taxes
1	250,000
2	600,000
3	320,000
4	550,000

Additional information:

- a) The investor's required rate of return is 12%
- b) Corporation tax rate is 30%.

Required:

Using NPV evaluate if the investment in the project is viable:

Discounting factor 12%

Y1	0.8929
Y2	0.7972
Y3	0.7118
Y4	0.6355

(20 marks)

QUESTION 4

Write brief explanatory notes on:

- a) Cost of capital **(4 marks)**
- b) Mutually exclusive projects **(4 marks)**
- c) Payback **(4 marks)**
- d) Risk and Return **(4 marks)**
- e) Unit trusts. **(4 marks)**

QUESTION 5

- a) List **FIVE** factors that you would consider when selecting the target optimal capital structure. **(10 marks)**
- b) Write brief explanatory notes on “gearing” or “leverage” and its implications. **(10 marks)**