



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

HIGHER DIPLOMA IN HUMAN RESOURCE MANAGEMENT

BAC 3101: 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 Four printed pages.

QUESTION 1 (Compulsory)

- a) Danta Ltd borrowed a 3 year loan of shs. 100,000 at 9% per annum from Pesa Ltd. Pesa Ltd requires that loan to be repaid in three equal instalments.

Required:

- i) Calculate the annual repayment installments
ii) Prepare a loan amortization schedule to show the interest and principal payment. **(10 marks)**
- b) What is the role of finance manager on financial decisions of the company? **(10 marks)**
- c) Profit maximization is one of the key objective of the firm, however a number of criticisms have been levelled against this principle. Briefly explain such shortcomings. **(10 marks)**

QUESTION 2

- a) Explain **FOUR** reasons why lease finance may be an appropriate source of finance for business. **(8 marks)**
- b) Premio Ltd intends to invest in either project J or K. The projects are mutually exclusive. The following are the expected cashflows from the projects:

| Year | Project J | Project K |
|------|-----------|-----------|
| 0 | (500,000) | (500,000) |
| 1 | 185,000 | 190,000 |
| 2 | 270,000 | 300,000 |
| 3 | 350,000 | 305,000 |
| 4 | 395,000 | 405,000 |

The company's cost of capital is 14%

- i) Calculate the discounted payback period for each project.
ii) Advise the management on the project to invest in. **(12 marks)**

QUESTION 3

- a) Explain the **FOUR** factors that have led to the rapid growth of micro finance institutions in Kenya. **(8 marks)**
- b) Langa Ltd intends to raise sh. 12 million during the forthcoming year as follows:

| | Project K |
|------------------------------------|------------------|
| 500,000 fully paid ordinary shares | 5 |
| Retained earnings | 2 |
| 100,000 8% preference shares | 2 |
| 20,000 6% debentures | 3 |

The company's ordinary shares are currently selling at sh. 3.60 per share. The expected dividends on ordinary shares is sh. 1.20 per share. The average growth rate in earnings and dividends has been 10% and is expected to be sustained. The company's debentures have a face value of sh. 160 and currently selling at sh. 100.

The corporation tax rate is 30%

Required:

Calculate the company's weighted cost of capital. **(12 marks)**

QUESTION 4

- a) Highlight **FIVE** contributions made by capital markets to the Kenyan economy. **(10 marks)**
- b) Agency relationship is a contract under which one or more people (principals) hire another person (agent) to perform some services on their behalf. Shareholders and managers relationship is typical example of agency relationship. Briefly explain how the conflict of interest occurs between shareholders and managers. **(10 marks)**

QUESTION 5

- a) What are the limitations of using WACC as an investment discount rate? **(8 marks)**
- b) A project costs sh. 16M with an expected life of five years with a nil residual value. The expected earnings before depreciation and tax are:

| Year | 1 | 2 | 3 | 4 | 5 |
|------|---------|---------|---------|-----------|-----------|
| EBIT | 920,000 | 960,000 | 980,000 | 1,000,000 | 2,200,000 |

The tax rate is 30% and straight line depreciation is applicable for tax purposes.

Required:

Calculate the ARR.

(12 marks)