TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR

MASTER OF SCIENCE IN HUMAN RESOURCE MANAGEMENT

MASTERS OF BUSINES ADMINISTRATION

MASTERS OF SCIENCE FINANCE

BMF 5104: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 3 HOURS

INSTRUCTIONS:

- Answer question **ONE (Compulsory)** and any other **THREE** questions
- Do not write on the question paper.

This paper consists of Three printed pages

QUESTION 1

Managing organizations is sometimes a challenge especially considering the key players in such organizations as well as the vested interests. From the financial point of view, discuss the problems that might exist in the relationship between:

a) Shareholders and managers. **(13 marks)**

b) Shareholders and creditors. **(12 marks)**

For each case, suggest how a company can minimize such problems.

QUESTION 2

Matopeni Company Ltd, a company recently registered and operating in Mombasa County needs to finance a seasonal rise in inventories of sh. 4 million. The funds are needed for six months. The company is considering using the following options to finance its inventories.

i) A floating lien arrangement from a supplier of the inventory at an effective interest rate of 24 percent. The supplier will advance the full value of inventory.
ii) A bankloan from the company's bank for 4 million. The bank can lend at the rate of 22%. For addition, a 10% compensating balance will be required which otherwise would not be maintained by the company.
iii) A one year line of credit with a commitment fee of 5% of the total borrowings at an interest rate of 17% p.a

Required:
Advise the managers of Matopeni Company on the cheapest option. **(25 marks)**

QUESTION 3

XYZ Ltd purchased a machine 5 years ago at a cost of KES million. It had an expected life of 10 year at the time of purchase and an expectd salage value of KES 100,000 at the end of its useful life. It is being depreciated straight line method.

A new machine can be purchased for KES 1.5 million over its 5 years life, it will reduce cash operating expenses by KES 500,000 per year. Sales are expectd to change. At the end of its useful life, the machine is considered valueless.

The old machine can be sold today for KES. 650,000. The company's tax rate is 35% and appropriate discount rate is 15%.

Required:

a) Determine whether the machine should be replaced or not using the NPV criterion. **(17 marks)**
b) What other factors should be considered before making the decision at (a) above? **(8 marks)**

QUESTION 4

MBA Ltd is considering two mutually exclusive profits requiring an initial cash outlay of KES 100,000 each with a useful life of 5 years. Its required rate of return is 10% and the appropriate corporate tax rate is 50%. The project will be depreciated on a straight line basis. The before depreciation and taxes cashflows expected to be generated by the projects are as follows:

Year	**1**	**2**	**3**	**4**	**5**
Project 1	KES. 40,000	40,000	40,000	40,000	40,000
Project 2	KES. 60,000	30,000	20,000	50,000	50,000

Required:

a) Calculate for each project:

i) The net present value **(4 marks)**

ii) Profitability index **(4 marks)**

iii) The internal rate of returns. **(4 marks)**

iv) The payable period **(4 marks)**

v) The average rate of return. **(4 marks)**

b) Which of the two projects should be accepted and why? **(5 marks)**

QUESTION 5

Aggressive and optimistic investors believe in investing in new small risky firms with intentions of making quick returns when the said firms become public. Using relevant examples, illustrate the attributes of such investment and their contribution to economic development of a country.

(25 marks)