



**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**



**SGS ISO 9001:2008 Certified**

- (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 31<sup>st</sup> 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.

Year	Cash flow	
	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

