

TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF MANAGEMENT SCIENCE

UNIVERSITY EXAMINATIONS

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:

	\$
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 December 2015:

	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