



**TECHNICAL UNIVERSITY OF MOMBASA  
SCHOOL OF BUSINESS  
DEPARTMENT OF ACCOUNTING & FINANCE**

**UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE**

**BFI 4303: FINANCIAL MANAGEMENT**

**END OF SEMESTER EXAMINATIONS  
SERIES: DECEMBER 2016  
TIME: 2 HOURS**

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**INSTRUCTIONS:**

Answer Question **ONE** (**Compulsory**) and any other **TWO** questions.

**This paper consists of Three printed pages**

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### QUESTION 1 (Compulsory)

a) Explain each of the following methods of evaluating investment:

- i) Internal rate of return (IRR) (2 marks)
- ii) Net present value (NPV) (2 marks)
- iii) Payback period (PBP) (2 marks)
- iv) Profitability index (PI) (2 marks)

b) A firm intends to invest Shs.2,500,000 in one of the projects. The projected cash inflows are as follows:

Year	Project A Shs.	Project B Shs.
1	-	1,200,000
2	900,000	-
3	1,600,000	700,000
4	1,000,000	1,400,000
5	1,500,000	1,500,000

The company cost of capital is 10%. The present value factor of Shs.1 at the rate of 10% is given below:

Year	1	2	3	4	5
PV factor	0.909	0.826	0.751	0.683	0.621

#### Required

- i) Profitability index for each project (10 marks)
- ii) Payback period for each project (10 marks)
- iii) The most viable project (2 marks)

### QUESTION 2

Explain the reasons why a number of qualifying companies are not quoted at Nairobi Stock Exchange (NSE) (20 marks)

### QUESTION 3

- a) Define working capital management (5 marks)
- b) Explain the dangers of holding excessive working capital (15 marks)

#### **QUESTION 4**

Proper management of current assets is one of the most important functions of a finance manager in any organization:

- a) What is normally included in the title 'Current Assets'? **(10 marks)**
  
- b) Briefly describe how best three of these assets may be maintained managed with a view to maximizing business profits **(10 marks)**

#### **QUESTION 5**

- a) Define dividend policy **(2 marks)**
  
- b) List and explain the factors that affect the company's dividend policy **(18 marks)**

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