



**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**

INSTRUCTIONS:

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

This paper consists of TWO printed pages

QUESTION 1 (Compulsory)

- a) Explain the advantages and disadvantages of Net Present Value (NPV) **(10 marks)**
- b) A company intends to buy a machine. There are two models to choose from. The particulars of each model are given below:

	Model A	Model B
	Shs.	Shs.
Cost	2,400,000	2,800,000
Cash inflows		
Year		
1	800,000	600,000
2	850,000	800,000
3	900,000	1,000,000
4	1,000,000	2,000,000

The company's cost of capital is 10%.

The present value factors of Shs.1 at the rate of 10% are given below:

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

Required

Using the NPV method, advise the management accordingly as to which one of the models of machines to purchase and why. **(20 marks)**

QUESTION 2

Discuss the factors that govern the volume of working capital that should be held by manufacturing business. **(20 marks)**

QUESTION 3

List and explain the factors that may influence the company's capital structure **(20 marks)**

QUESTION 4

Write short notes on TWO methods of project appraisal and comment on their relative advantages and disadvantages **(20 marks)**

QUESTION 5

List and explain the factors that will influence the working capital needs of a company **(20 marks)**