



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY AND DLTM

BAC 2212: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES:AUGUST₂₀₁₉

TIME:2HOURS

DATE:Pick DateAug₂₀₁₉

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of five questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

- (a) Discuss the agency theory (4marks)
- b) Explain the conflicts that may arise between the management and the stakeholders and how they can be resolved. (8 marks)
- c) State and explain the main goals of a firm. (8 marks)
- d) The following is capital structure of Bashar Ltd as at 31st 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 (6 marks)
 ii. What are the weakness associated to WACC (4 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.

Cash flow

Year	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 a finance manager. (6 marks)
 (d) Explain the short term and long term sources of finance (6marks)

Question FOUR

- 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.

Required

Compute the Average Rate of Return (ARR) of the project (8marks)

Question FIVE

Discuss the following dividend policies

- i. Stable dividend policy (4marks)
- ii. Policy of no immediate dividend (4marks)
- iii. Policy of regular extra dividends (4marks)
- iv. Policy of regular stock dividends (4marks)
- v. Policy to pay irregular dividends (4marks)