



TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS ADMINISTRATION

DIPLOMA IN LOGISTICS, TRANSPORT & MANAGEMENT

BAC 2212: FINANCIAL MANAGEMENT

SUPPLEMENTARY/SPEC. EXAMINATION

**SERIES:** JUNE, 2022

**TIME:** 2 HOURS

**DATE:** Pick Date Jun 2022

**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.**

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**Question ONE**

a) Define Financial Management and vividly analyze its relationship with the following disciplines.

i. Mathematics

ii. Economics

iii. Human Resource

(10 Marks)

b) From the following information, calculate the net present value of the two project and suggest which of the two projects should be accepted at a discount rate of 10% for the two. (12 Marks)

	Project X (sh)	Project Y (sh)
Initial Investment	20,000	30,000
Estimated Life	5 Years	5 Years
Scrap Value	1,000	2,000

The profits before depreciation and after taxation (cash flows) are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Sh.		Sh.	Sh.	Sh.	Sh.
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

- c) The importance of valuing securities evolves from the fact that the intrinsic value of a stock is not attached to its current price. Discuss the roles of valuation in the security market. (8 Marks)

### Question TWO

- a) The financial manager must take careful decisions on how the profit should be distributed among shareholders. Highlight FIVE factors that determine the dividend policy of a firm. (12 Marks)
- b) Business concern needs cash to make payments for acquisition of resources and services for the normal conduct of business. Explain the motivations of a business to hold cash. (8 Marks)

### Question THREE

- a) Capital is the major part of all kinds of business activities. Discuss FIVE factors that determines the composition of a firm's capital. (10 Marks).
- b) Abinaya Company Ltd. expresses a net operating income of Sh. 200,000. It has Sh. 800,000, 7% debentures. The overall capitalization rate is 10%.
- Calculate the value of the firm and the equity capitalization rate (or) cost of equity according to the net operating income approach. (6 Marks)
  - If the debenture debt is increased to Sh. 1,200,000. What will be the effect on the value of the firm, the equity capitalization rate? (4 Marks)

### Question FOUR

- a) From the following information calculate;
- Re-order level
  - Maximum level
  - Minimum level
  - Average level
- (12 Marks)

Normal usage: 100 units per week

Maximum usage: 150 units per week

Minimum usage: 50 units per week

Re-order quantity (EOQ) 500: units

Log in time: 5 to 7 weeks

- b) A financial market is a market in which financial assets are traded. Highlight major functions of Financial Markets. (8 Marks)

**Question FIVE**

Financial Management has withstood several developments over years. Discuss the evolution of Financial Management as a discipline. (20 Marks)