



TECHNICAL UNIVERSITY OF MOMBASA

---

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

END OF SEMESTER EXAMINATION

**SERIES:** APRIL 2022

**TIME:** 2 HOURS

**DATE:** Pick Date Apr 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.**

---

**Question ONE**

- a) Z Ltd. has two projects under consideration A & B, each costing Sh. 60, 000. The projects are mutually exclusive. Life for project A is 4 years & project B is 3 years. Salvage value NIL for both the projects. Tax Rate 33.99%. Cost of Capital is 15%.

Net Cash Inflow ( sh '000')

At the end of year	Project A	Project B	P.V @15%
1	60	100	0.870
2	110	130	0.756
3	120	50	0.685
4	50	-	0.572

Required:

- i. Determine which project will be suitable for the company and why. (16 Marks)

- ii. State 2 advantages and 2 disadvantages of Net Present Value (NPV) as a mode of determining the value of a firm. (4 Marks)
- b) Consider an option to buy an ordinary share in Clement Plc at Sh. 65 when the price of the share is sh. 62.5. The option will expire in four months or 120 days. The risk free rate is 5%. The volatility of Clement Plc shares as measured by the standard deviation of the return on the shares for the 120- day period to expiry is estimated to be 40%. Calculate the prices of a European call and put option premium using the Black Scholes option pricing model. (10 Marks)

**Question TWO**

- a) Financial markets are viable ventures if well controlled. Highlight the Roles of Capital Markets Authority in Kenya’s economy. (10 Marks)
- b) Apart from decision making, enumerate FIVE other functions of a Finance manager. (10 Marks)

**Question THREE**

- a) Compute the market value of the firm, value of shares and the average cost of capital from the following information.

Net operating income Sh. 100,000

Total investment Sh. 500,000

Equity capitalization Rate:

- a) If the firm uses no debt 10%
- b) If the firm uses Sh. 25,000 debentures 11%
- c) If the firm uses Sh. 400,000 debentures 13%

Assume that Sh. 25,000 debentures can be raised at 6% rate of interest whereas Sh. 400,000 debentures can be raised at 7% rate of interest. (12 Marks)

- b) Financing is an integral part as far as capital funds are concerned. Discuss the benefits of analyzing cost of financing before setting up a project. (8 Marks)

**Question FOUR**

- a) Two Companies has the following information. As a financial management student, which one will you advise an investor to invest in? (10 Marks)

Company A

	Probability, Pi	Returns, Ri (%)
1	0.05	38
2	0.20	23
3	0.50	8
4	0.20	-7
5	0.05	-22

Company B

	Probability, $P_i$	Returns, $R_i$ (%)
1	0.10	90
2	0.25	50
3	0.30	20
4	0.25	-10
5	0.10	-50

- b) What do you understand by dividend policy? Explain in brief models of dividend theories. (10 Marks)

**Question FIVE**

- a) Receivables are a major part of current assets of a business. Discuss costs associated with the extension of credit to customers. (8 Marks)
- b) Financial Management has withstood several phases to this far. Explain the developments of financial management to the present day business world. (12 Marks)