TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS MANAGEMENT

UNIT TITLE: FINANCIAL MANAGEMENT

UNIT CODE: BAC 2212

END OF SEMESTER EXAMINATION

SERIES: APRIL 2025

TIME: 2 HOURS

DATE: APRIL 2025

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) TUMEL intends to undertake two mutually exclusive projects requiring an 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 flows

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:

Calculate and advice accordingly

i. The payback period (5 Marks)

ii. The Net Present Value (5 Marks)

iii. Profitability index (5 Marks)

b) What do you understand by derivatives? Discuss the common types of derivatives (5 Marks)

c) The return on individual security and market return is given below

X	16	20	8	12	14	10	12	7	8	9
Y	18	22	9	7	10	7	12	17	18	16

Required;

Compute the alpha and beta from the above. (10 Marks).

Question Two

(a) Discuss the objectives of financial management in an organization (10 Marks)

(c) Apart from decision making, discuss other roles of the financial manager (10Marks)

Question Three

A company issues 10,000 equity shares of Sh. 100 each at a premium of 10%. The company has been paying 25% dividend to equity shareholders for the past five years and expects to maintain the same in the future also.

Compute;

i)The cost of equity capital. Show all your workings (6 Marks)

ii) Will it make any difference if the market price of equity share is Sh. 175? (4 Marks)

iii) Highlight the significance of the cost of capital (10 Marks)

Question Four

Write brief explanatory notes on the following terms giving examples for each

a) Certificates of Deposit (4 Marks)

b) Cost of capital (4 marks)

c) Derivatives (4 Marks)

d) Mutual Funds (4 Marks)

e) Exchange-Traded Funds (4Marks)

Question Five

Kasongo Chemical Limited on its books has the following capital structure on 31 March 2025

Source of Finance	**Amount (sh.000)**	**Proportion** %	**Cost**

Share capital	450,000	45	18.0
Reserves and surplus	150,000	15	18.0
Preference share capital	100,000	10	15.0
Debt	300,000	30	8.0

i) Compute the weighted average cost of capital(WACC) of Kasongo Chemical Limited based on the existing capital structure provided (6 Marks)

ii) Explain why managers prefer the book value weights for calculating WACC

(6 Marks)

iii0 What are the weaknesses associated to WACC (8 Marks)

Present value interest factor of Ksh1 per period at i% for n periods, PVIF(i,n).

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482

	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
5	51	06	63	22	84	47	13	81	50	21	93	67	43	19	97	76	56	37	19	02
	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
6	42	88	37	90	46	05	66	30	96	64	35	07	80	56	32	10	90	70	52	35
	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2
7	33	71	13	60	11	65	23	83	47	13	82	52	25	00	76	54	33	14	96	79
	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
8	23	53	89	31	77	27	82	40	02	67	34	04	76	51	27	05	85	66	49	33
	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
9	14	37	66	03	45	92	44	00	60	24	91	61	33	08	84	63	43	25	09	94
	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
10	05	20	44	76	14	58	08	63	22	86	52	22	95	70	47	27	08	91	76	62
	0.8	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
11	96	04	22	50	85	27	75	29	88	50	17	87	61	37	15	95	78	62	48	35
	0.8	0.7	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
12	87	88	01	25	57	97	44	97	56	19	86	57	31	08	87	68	52	37	24	12
	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
13	79	73	81	01	30	69	15	68	26	90	58	29	04	82	63	45	30	16	04	93
	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
14	70	58	61	77	05	42	88	40	99	63	32	05	81	60	41	25	11	99	88	78
	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
15	61	43	42	55	81	17	62	15	75	39	09	83	60	40	23	08	95	84	74	65
	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
16	53	28	23	34	58	94	39	92	52	18	88	63	41	23	07	93	81	71	62	54
	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
17	44	14	05	13	36	71	17	70	31	98	70	46	25	08	93	80	69	60	52	45
	0.8	0.7	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18	36	00	87	94	16	50	96	50	12	80	53	30	11	95	81	69	59	51	44	38
	0.8	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19	28	86	70	75	96	31	77	32	94	64	38	16	98	83	70	60	51	43	37	31
	0.8	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	20	73	54	56	77	12	58	15	78	49	24	04	87	73	61	51	43	37	31	26
	0.7	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
25	80	10	78	75	95	33	84	46	16	92	74	59	47	38	30	24	20	16	13	10
	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
30	42	52	12	08	31	74	31	99	75	57	44	33	26	20	15	12	09	07	05	04
	0.7	0.5	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
35	06	00	55	53	81	30	94	68	49	36	26	19	14	10	08	06	04	03	02	02
	0.6	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
40	72	53	07	08	42	97	67	46	32	22	15	11	08	05	04	03	02	01	01	01
	0.6	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
50	08	72	28	41	87	54	34	21	13	09	05	03	02	01	01	01	00	00	00	00

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