



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS ADMINISTRATION

DIPLOMA IN PROCUREMENT AND MATERIAL MANAGEMENT

BAC 2212: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2024

TIME: 2 HOURS

DATE: Pick Date Aug 2024

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) Company ABC Ltd is contemplating the purchase of a new machine. Two alternative machines, A and B, which will cost Sh. 6,000,000 and Sh. 7,000,000 respectively are available in the market. The cash flow after taxation of each machine are as follows:

| | Cash flows A Sh. | Year B 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: Using the Net Present Value Method (NPV), advice the management of ABC Limited on which machine to purchase and why (12 marks)

- b) Dividend refers to the business concerns net profits distributed among the shareholders. Explain FIVE main dividends theories. (10 marks)
- c) Identify and explain briefly the major financial markets for securities in Kenya (10 marks)

Question TWO

- a) All markets need a regulator. Discuss the roles of Capital Markets Authority in the Kenya's economy. (10 Marks).
- b) Abinaya company Ltd. expresses a net operating income of Sh. 200,000. It has Sh. 800,000 to 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 THREE

- a) The concepts of profit maximization and wealth maximization have been touted as the main objectives of a business entity. Briefly differentiate the two concepts. (10 marks)
- b) ABC Ltd. issues 20,000, 8% preference shares of sh. 100 each. Redeemable after 8 years at a premium of 10%. The cost of issue is sh. 2 per share. Calculate the cost of preference share capital. (4 Marks).
- c) The value of a derivative instrument depends upon the underlying asset. Discuss the applications of financial derivatives in the derivative market. (6 Marks)

Question FOUR

Say a firm that sells electronic gadgets manages stock levels for such products. They adjust their inventory based on market trends, new technological advancements, and the product life cycle. The business has a reordering level of 3000 refrigerators and a reorder quantity of 1500 refrigerators. The maximum monthly sales are 200 refrigerators, the maximum lead time is 30 days, and the minimum is 22 days. Also, the minimum sales per month is 120 refrigerators, and the minimum and maximum reorder times are 20 and 30 days, respectively.

Determine:

- Minimum level (5 Marks)
- Maximum level (4 Marks)
- Re-ordering level (4 Marks)
- Average Stock level (4 Marks)
- Danger level (3 Marks)

Question FIVE

- a) Market classification is based on the maturity of financial instruments as capital or money markets. Differentiate the two markets. (10 marks)
- b) Digital finance is the term used to describe the impact of new technologies on the financial services industry. Elucidate the digital financial strides that the Finance discipline have undergone. (10 Marks)