



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTACY

DIPLOMA IN BUSINESS MANAGEMENT

UNIT CODE: BAC 2212

UNIT TITLE: FINANCIAL MANAGEMENT

SPECIAL/SUPPLEMENTARY EXAMINATION

SERIES: JULY 2025

TIME: 2 HOURS

DATE: JULY 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) Discuss the determinants of working capital. (10Marks))
- b) Explain the conflicts that may arise between the management and the stakeholders and how they can be resolved. (10 Marks)
- c) Assume that two firms the levered firm (L) and the unlevered firm (U) are identical in all important respects except financial structure. Firm L has Sh. 4 million of 7.5% debt, while Firm U uses only equity. Both firms have EBIT of Sh.900,000 and the firms are in the same business risk class. Initially assume that both firms have the same equity capitalization rate of 10%. In addition, assume an investor owns 10% of L's stock. The

market value of this investment is Sh. 600,000. The investor could sell this investment for Sh.600,000, borrow an amount equal to 10% of L's debt (Sh. 400,000), and buy 10% of U's shares for Sh. 900,000. The investor would remain with Sh. 100,000 which he can invest in 7.5% debt.

Required; Compute

i) The value firm U's Equity and the total market value. (5 Marks)

ii)The value firm U's Equity and the total market value. (5 Marks)

Question Two

a) Explain the short-term and long-term sources of finance (10marks)

b) Discuss the investment opportunities used in project appraisals in a firm (10 Marks)

QUESTION Three

A company has two alternative proposals. The details are as follows

	Proposal 1	Proposal II
	Automatic Machine	Ordinary Machine
Cost of Machine	Sh.220,000	Sh.60,000
Estimated life	5½ years	8 years
Estimated sales p.a	Sh.150,000	Shs.150,000
Cost: Material	Sh.50,000	Sh.50,000
Labour	Sh.12,000	Sh.60,000
Variable overhead	Sh.24,000	Sh.20,000

Calculate for each machine: -

- a) The profitability of the proposals under the Return on Investment Method. (10Marks)
- b) Discuss the advantages and disadvantages of Average Rate of Return. (10 Marks)

Question Four

A company plans to issue 10000 new shares of Rs. 100 each at a par. The floatation costs are expected to be 4% of the share price. The company pays a dividend of Rs.12 per share initially and growth in dividends is expected to be 5%.

- a) Compute the cost of new issue of equity shares. (5 Marks)
- b) If the current market price of an equity share is Rs. 120. Calculate the cost of existing equity share capital (5 Marks)
- c) Frank extracts the price of shares in XYZ Company Limited from Stock Exchange induces over the last nine years as given below.

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Price	150	140	152	162	200	170	195	188	205

Compute the annual rate of return for Frank if he has made investment in shares in 2010 for a sum of sh. 130. (10 Marks)

Question Five

- a) Discuss the functions of financial management in a firm (10 marks)
- b) Explain what capital structure is and the factors affecting its function (10 marks)



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