



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS MANAGEMENT

DIPLOMA IN BUSINESS ADMINISTRATION

DIPLOMA IN LOGISTICS AND TRANSPORT MANAGEMENT

BAC 2212: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2024

TIME: 2 HOURS

DATE: Pick Date Dec 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) Define business and discuss 2 social aims that a business must meet. (6 Marks)
- b) Highlight steps of capital budgeting. (10 Marks)
- a) Projects A, B, C and D have initial capital outlays of sh. 36,000 each. The cash flow for each project is as indicated below:
(12 Marks)

Project	Year 1	Year 2	Year 3	Year 4
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A	18,000	6,000	12,000	4,000
B	20,000	16,000	0	0
C	24,000	6,000	12,000	0
D	16,000	20,000	2,000	2,000

Required:

- i. Pay Back Period of each project (12 Marks)
- ii. Assuming the maximum payback period is 2 years, which project should be selected and why? (2 Marks)

Question TWO

- a) A company expects its annual EBIT to be sh. 50,000. The company has sh. 200,000 in 10% bonds and the cost of equity is 12.5%. Required; Calculate of the weighted cost of capital of the firm using net Income (NI) approach. (10 marks)
- b) Assume that the firm decides to retire sh.100, 000 worth of equity by using the proceeds of the new debt issue worth the same amount. The cost of debt and equity would remain the same as in (a) above. Calculate the new cost of capital using net operating income. (5 marks)
- c) Briefly explain the assumptions of Net Operating income. (5 marks)

Question THREE

- a) What do you understand by dividend policy? Explain in brief dividend policies as discussed in FM. (12 Marks)
- b)
 - i. A company plans to issue 10000 new shares of sh. 100 each at a par. The floatation costs are expected to be 4% of the share price. The company pays a dividend of sh. 12 per share initially and growth in dividends is expected to be 5%. Compute the cost of new issue of equity shares. (4 Marks)
 - ii. A company issues 10,000 equity shares of Rs. 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 the cost of equity capital. (4 Marks)

Question FOUR

- a) Distinguish between money market and capital market giving examples of each (10 marks)
- b) H limited wishes to minimize its stock costs. Now, its reorder quantity is 1000 units. Order costs are £10 per order and annual holding costs are £1.2. H estimates the annual demand to be 15,000 units.

Required:

Calculate the EOQ to the nearest 1000 units (10 marks)

Question FIVE

Financial Management has withstood several phases to this far. Explain the contributions of technology to financial management in the present-day business world. (20 Marks)