



TECHNICAL UNIVERSITY OF MOMBASA

School of Business & Social Studies

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN

MASTERS OF BUSINESS ADMINISTRATION

MASTERS OF SCIENCE IN HUMAN RESOURCES MANAGEMENT

MASTERS OF SCIENCE IN PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

MASTERS OF SCIENCE IN FINANCE

BFI 5101: FINANCIAL MANAGEMENT

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: March 2025

TIME: 3 HOURS

INSTRUCTIONS:

Answer Question **ONE (Compulsory)** and any other **Three** questions

This paper consists of Four printed pages

QUESTION ONE (Compulsory)

Equity Bank Ltd - Transforming lives through inclusive financial access

Access to affordable financial services is a significant challenge in Africa, where the majority of the population is excluded from the formal banking sector. In 2007, more than 70 percent of households in Kenya relied on informal sources of financing.¹ Inaccessibility to formal financial services negatively impacts livelihoods by increasing transaction costs and risks, limiting market exchanges, and reducing opportunities for households to save.

Equity Bank, through its inclusive business model, develops financial products designed to serve the continent's unbanked and underbanked populations. Its business model targets the low-income market to achieve scale through a high volume of relatively small, low-margin transactions. This allows Equity Bank to keep costs low, while providing stable funding to customers and promoting accessibility, convenience, affordability, and efficiency of financial products and services. A large distribution network of agents and a robust information technology platform further enable the bank to access previously untapped markets. The bank's business model has been featured in case studies at leading international business schools around the world.

In July 2011, the Lukama Dairy Commercial Village partnered with Brookside Dairy and Equity Bank to develop a dairy cooperative in Kenya. The model provides smallholders with a market for their products and access to high-quality inputs financed by Equity Bank. In October 2011, Equity Bank provided a \$4,000 overdraft facility to smooth over farmer incomes following a delayed payment schedule. As a result, average daily milk sales rose from 186 to 600 liters, translating to an increase in income of \$4,500 per month for the cooperative.

In Relation to the above Case:

- a) Explain any Five sources of Business Finance (10 marks)
- b) Explain the Four Main functions of Finance in an organization (6 Marks)
- c) Describe the relationship between Risk and Expected return (4 Marks)

QUESTION TWO

- a) You have been approached by the management of a company, to advise them on the factors to consider when determining the optimal working capital requirements. Using relevant examples advice the management. (8 Marks)
- b) Companies may engage in merger activities for various reasons. Explain the Merger process that such companies may follow. (8 Marks)
- c) An investor wants to buy a 10% bond having a 10 years maturity and a face value of Kshs. 1,500. Investor requires a return of 16%. How much should the investor pay for the bond? (4 Marks)

QUESTION THREE

The following financial statements were obtained from the books of Barnabas Ltd
Income statement for the year of income ending 31st December 2016

	Sh.
Sales	6,000,000
Cost of sales	2,400,000
Gross Profit	<u>3,600,000</u>
Less operating expenses	<u>1,500,000</u>
	2,100,000
Less corporation tax	<u>350,000</u>
	1,750,000
Dividends David	<u>350,000</u>
Retained Earnings	<u><u>1,400,000</u></u>

Statement of Financial Position As at 31st December 2016

	Sh.
40,000 ordinary shares of @ 200	8,000,000
Retained earnings	2,100,000
10% debentures	2,850,000
Payables	1,050,000
Bank overdraft	400,000
	<u><u>14,400,000</u></u>
Fixed assets	9,000,000

Inventory	1,900,000
Receivables	2,500,000
Cash	1,000,000
	14,400,000

Required:

Compute the following ratios and give their interpretation of Barnabas Ltd's financial performance:

- i). Return on Capital Employed
- ii). Current ratio
- iii). Acid test ratio
- iv). Earnings per share
- v). Dividend per share
- vi). Inventory Turnover
- vii). Gross Profit Mark-up
- viii). Receivables payment period (20 marks)

QUESTION FOUR

Patico Co. is evaluating an investment proposal to manufacture Product Soda233, which has performed well in test marketing trials conducted recently by the company's research and development division. The following information relating to this investment proposal has now been prepared.

Initial investment	Ksh. 2.5 million
Selling price	Ksh. 22 per unit
Variable operating costs	Ksh. 10 per unit
Fixed operating costs	Ksh. 210,000 per year

The research and development division has prepared the following demand forecast as a result of its test marketing trials. The forecast reflects expected technological change and its effect on the anticipated life-cycle of Soda233.

Year	1	2	3	4
Demand (units)	95,000	70,000	117,000	65,000

It is expected that all units of Product Soda233 produced will be sold, in line with the company's policy of keeping no inventory of finished goods. No terminal value or machinery scrap value is expected at the end of four years, when production of Product Soda233 is planned to end. The company's expected after tax cost of capital is 12% per year. The inflation is expected to be fairly stable for the next five years

Required:

- a) Calculate the Net Present Value for the investment proposal (12 Marks)
- b) Discounted Payback Period (4 Marks)
- c) Explain any 4 non financial factors that the company may consider in appraisal of the said project proposal (4 Marks)

QUESTION FIVE

- a) A company offers to pay divided in form of new shares which are worth more than the cash alternative which is also offered. Why might the shareholders prefer a current cash dividend to a future capital gain? (12 marks)
- b) How can a company gearing affect the dividend yield? (8 marks)

Table A-3 Present Value Interest Factors for One Dollar Discounted at k Percent for n Periods: $PVIF_{k,n} = 1 / (1 + k)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	24%	25%	30%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8333	0.8065	0.8000	0.7692
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.6944	0.6504	0.6400	0.5917
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.5787	0.5245	0.5120	0.4552
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.4823	0.4230	0.4096	0.3501
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4019	0.3411	0.3277	0.2693
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3349	0.2751	0.2621	0.2072
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.2791	0.2218	0.2097	0.1594
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2326	0.1789	0.1678	0.1226
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.1938	0.1443	0.1342	0.0943
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.1615	0.1164	0.1074	0.0725
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.3173	0.2875	0.2607	0.2366	0.2149	0.1954	0.1346	0.0938	0.0859	0.0558
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2858	0.2567	0.2307	0.2076	0.1869	0.1685	0.1122	0.0757	0.0687	0.0429
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2575	0.2292	0.2042	0.1821	0.1625	0.1452	0.0935	0.0610	0.0550	0.0330
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2320	0.2046	0.1807	0.1597	0.1413	0.1252	0.0779	0.0492	0.0440	0.0254
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.1079	0.0649	0.0397	0.0352	0.0195