TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
MPSM
BPC5203: SUPPLY CHAIN FINANCIAL MANAGEMENT
END OF SEMESTER EXAMINATIONS
SERIES: AUGUST 2024
TIME:3HOURS

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 THREE questions.
Do not write on the question paper.

Question ONE

a) ABC ltd. is considering three possible capital projects for next year. Each project has a 1year life, and project returns depend on next year's state of the economy. The estimated rates of return are shown below.

State of The Economy	**Probability of Occurrence**	**Rate of Return**		
		A	**B**	**C**
Recession	0.25	10%	9%	14%
Average	0.50	14	13	12
BOOM	0.25	16	18	10

Required:
Find each project expected rate of return, variance, standard deviation and coefficient of variation. (12marks)

(b) The concepts of profit maximization and wealth maximization have been touted as the main objectives of a business entity. Briefly differentiate the two concepts. (8 marks)

c) "The finance manager spends most of his time making managerial finance decisions as opposed to routine functions". Discuss. (10marks)

d)There are different dividend policies that influence how much a firm should pay as dividends. Examine these policies. (10marks)

Question TWO

(a) The Arbitrage Pricing Theory (APT) and the Capital Asset Pricing Model (CAPM) have received much attention from practitioners and academicians for use in asset pricing and valuation

Required:

Explain the conceptual difference between the Arbitrage Pricing Theory (APT) and Capital Asset Pricing Model (CAPM). (10 marks)

(b) The following are the historical returns for the Anita Computer Company Ltd

Year	**Anita Computer Company Ltd**	**General Index**
1	37	15
2	9	13
3	-11	14
4	8	-9
5	11	12
6	4	9

Required:

(i) Compute the correlation coefficient between Anita Computer Company LTd. And the general index. (8 marks)

(ii) Compute the beta for the Anita Computer Company Ltd. (2 marks)

Question THREE

a) A company is considering the following investment projects

	Cash flows in kshs.			
Projects	C_0	C_1	C_2	C_3
A	-10,000	+10,000		
B	-10,000	+7,500	+7,500	
C	-10,000	+2,000	+4,000	+12,000
D	-10,000	+10,000	+3,000	+3,000

Required

Compute for each project

i) Payback (5marks)

ii) ARR (5marks)

iii) IRR (5marks)

iv) NPV (5marks)

Question FOUR

a) Examine any four dividend theories (12marks)

b) Consider a firm with the following structure

Source	Amount	After tax cost
Ordinary shares	80,000	15%
Preference shares	20,000	12%

Debt	50,000	10%

Required:

i)Compute its WACC. (6marks)

ii) Distinguish between WACC and WMCC (2marks)

Question FIVE

(a) Briefly explain any five factors that may influence the capital structure used by a company. (10 marks)

(b) The risk- free rate is 10% and the expected return on the market portfolio is 15%. The expected returns for 4 securities are listed below together with their expected beta.

Security	**Expected Return**	**Expected Beta**
A	17.0%	1.3
B	14.5%	0.8
C	15.5%	1.1
D	18.0%	1.7

Required:

i) On the basis of these expectations, which securities are overvalued? Which are undervalued? (5 marks)

ii) If the risk-free rate were to rise to 12% and the expected return on the market portfolio rose to 16%, which securities would be overvalued? Which would be under-valued? (Assume the expected returns and the betas remain the same. (5 marks)