TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BFI 4303: FINANCIAL MANAGEMENT IN PUBLIC SECTOR

END OF SEMESTER EXAMINATION

SERIES:JULY 2025

TIME:TWO 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 and any other two questions

Do not write on the question paper.

QUESTION ONE

1.(a) (i) A firm has to choose between project A and B. project A involves on initial outlay of Khs19,000 and a return in 1 year's time of Kshs 2,000. Project B involves on initial outlay of Kshs 20,000 and a return in 1 year's time of Kshs 2,500. The interest rate is 6% what would be the better investment.
[6Marks]

(ii) Discuss the importance of investment decisions [4 Marks]

(b) Assume that a company has 3 subsidiaries X, Y, and Z and that the company does not allocate corporate headquarters' costs or interest in long-term debt to the subsidiaries. Summary of the results are as follows:

	A	B	C	H	Total
Operating income	240	340	490		1070
Variable cost of H				90	
Fixed costs of H				130	
Interest on L.T debt				420	(640)
Income before taxation					430
Taxes					130
Income after taxation					300
Average book values					
Current assets	400	500	600	200	1700
Fixed assets	600	1500	2400	300	4800
					6500

Required:

(i)Compute the return on investment.

(ii)Compute residual income assuming that the company requires a 10% interest on total assets of each subsidiary.

(c) Identify the main weaknesses that undermine public sector controls
[10marks]

QUESTION TWO

(a) Identify the responsibilities of local authorities in Kenya
[10marks]

(b) Discuss the benefits that has accrued to Kenya from a devolved system of government. [10marks]

QUESTION THREE

(a) Discuss the main functions of cooperatives in Kenya today
[10marks]

(b) Discuss the benefits that accrue to an organization as a result of benchmarking
[10marks]

QUESTION FOUR

4(a) Discuss the main challenges facing directors of public institutions in dealing with public resources [10marks]

(b) Differentiate between imposed and participative budgets [10marks]

QUESTION FIVE (20 MARKS)

5 Explain the factors considered when forecasting of future tax revenues. [20marks]