TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BFI 4303: FINANCIAL MANAGEMENT IN PUBLIC SECTOR

SUPPLEMENTARY/SPECIAL EXAMINATION

SERIES: NOVEMBER 2024

TIME: TWO HOURS

DATE: NOVEMBER 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 and any other two questions
Do not write on the question paper.

QUESTION ONE

1(a) 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	220	340	490		1050
Variable cost of H				80	
Fixed costs of H				120	
Interest on L.T debt				400	(600)
Income before taxation					420

Taxes Income after taxation					150 270
Average book values Current assets Fixed assets	400 600	500 1500	600 2400	200 300	1700 4800 6530

Required:

(i)Compute the return on investment. (10Marks)

(ii)Compute residual income assuming that the company requires a 10% interest on total assets of each subsidiary. (5Marks)

(b)(i) A firm has to choose between project A and B. project A involves on initial outlay of £19,000 and a return in 1 year's time of £2,000. Project B involves on initial outlay of £20,000 and a return in 1 year's time of £2,500. The interest rate is 6%. What would be the better investment. (10Marks)

(ii) Discuss the advantages of profitability index as an investment appraisal method (5 Marks)

QUESTION TWO

2(a) Describe the challenges facing directors of public institutions in dealing with public resources (10marks)

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

QUESTION THREE

3 (a) Discuss the advantages of benchmarking (10marks).

(b) Discuss the main components of the balanced scorecard as a measure of performance (10 Marks)

QUESTION FOUR

(a) Decentralization by devolution is emphasized Constitution of Kenya. Discuss the benefits that has accrued to Kenya from a devolved system of government. (10 Marks)

(b) Identify the responsibilities of local authorities in Kenya (10marks)

QUESTION FIVE (20 MARKS)

5. Discuss factors considered when forecasting of future tax revenues.(20marks)