TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF BUSINESS AND OFFICE MANAGEMENT

BFI 4301: FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2024

TIME: 2 HOURS

DATE: Pick DateDec2024

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) 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)

d) Consider an option to buy an ordinary share in Clement Plc at Sh. 65 when the price of the share is sh. 62.5. The option will expire in four months or 120 days. The risk-free rate is 5%. The volatility of Clement Plc shares as measured by the standard deviation of the return on the shares for the 120-day period to expiry is estimated to be 40%. Calculate the prices of a European call and put option premium using the Black Scholes option pricing model. (10 Marks)

Question TWO

a) Financial markets are viable ventures if well controlled. Highlight the Roles of Capital Markets Authority in Kenya's economy. (10 Marks)
b) Apart from decision making, enumerate FIVE other functions of a Finance manager. (10 Marks)

Question THREE

Kiwanda Limited is considering purchasing a new machine. Two alternative machines, Pesi TZO and Upesi MO2, which will cost Sh.6, 000,000 and Sh.7, 000,000 respectively are available on the market. The cash flow after taxation of each machine is as follows:

Year	Pesi TZO	Upesi MO2
1.	6,000	18,000
2.	18,000	24,000
3.	20,000	30,000
4.	30,000	18,000
5.	24,000	16,000

The company's rate of return is 8%

Required:

a) Compute the net present value of each machine. (8 marks)
b)
   i. If each machine represents a project: Calculate the internal rate of return for each of the two projects. (10 marks)
   ii. Comment on the use of the results obtained in (a) and (b)(i) above in selecting between the two projects. (2 marks)

Question FOUR

a) Find the Future Value of Sh. 100,000 compounded at 6% for 3 years:
   i. Annually (4 marks)
   ii. Semi-annually (4 marks)
   iii. Quarterly (4 marks)
b) What do you understand by dividend policy? Explain any three dividend theories. (8 Marks)

Question FIVE

a) Receivables are a major part of the current assets of a business. Discuss costs associated with the extension of credit to customers. 10 Marks)

b) Financial Management has withstood several phases to this far. Explain the developments of financial management to the present-day business world. (10 Marks)