TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF HUMANITIES & SOCIAL SCIENCES
DEPARTMENT OF HOSPITALITY & TOURISM MANAGEMENT
BACHELOR OF TECHNOLOGY IN HOTEL AND HOSPITALITY (BTHMA21)
UNIVERSITY EXAMINATION FOR:

BFI 4440 : FINANCIAL MANAGEMENT
END OF SEMESTER EXAMINATION
SERIES: APRIL 2025
TIME: 2HOURS
DATE: APRIL 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 (Compulsory) and any other TWO questions.

Do not write on the question paper.

QUESTION 1 (COMPULSORY)

a) Company ABC contemplates on investing in any of 2 mutually exclusive projects which have an initial investment of ksh 2,500,000. The investments are expected to yield the following cash inflows over the next five years. The required rate of return is 11%.

Year	Project A	Project B
	Ksh	Ksh
1	665,000	680,000
2	750,000	740,000
3	650,000	700,000
4	690,000	680,000
5	920,000	930,000

Required: Advice the company on which project to invest in using:

i) Pay-Back period method (7 marks)

ii) Net Present Value method (9marks)

iii) Profitability Index (4 marks)

b) Discuss the difference between the money market and capital market (10 marks)

QUESTION TWO **(30 Marks)**

a) Define financial management and briefly explain the functions of a finance manager (8 Marks)
b) Outline four characteristics of ordinary share capital (4 Marks)
c) Name and explain three participants in the money market (6 Marks)
d) Define Preference share capital (2 Marks)

QUESTION THREE

a) State FIVE factors that would influence the cost of capital. (5 Marks)
b) Kisauni Ltd was recently incorporated to manufacture canned egg soup. It has the following capital structure in market value terms.

	Shs.
160,000 Ordinary Shares	4,000,000
Preference Shares	1,000,000
Debentures	3,000,000
Total	8,000,000

The following additional information is available;

- The required rate of return on equity is 17%.
- The new company's debt is currently yielding 13%.
- Its preference shares yield 12%

Required:

Calculate the weighted average cost of capital. (15 Marks)

QUESTION FOUR

From the following information, prepare a monthly cash budget for the three months ending 31st December 2019. (20 marks)

Month	Sales kshs	Materials kshs	Wages kshs	Production kshs	Admin. Selling kshs
Jun.	3,000	1,800	650	225	160
Jul.	3,250	2,000	750	225	160
Aug.	3,500	2,400	750	250	175
Sep.	3,750	2,250	750	300	175
Oct.	4,000	2,300	800	300	200
Nov.	4,250	2,500	900	350	200
Dec.	4,500	2,600	1,000	350	225

Additional Information:

- 10% of sales are in cash. On average, 50% of credit sales are paid a month after sales, while the other 30% are paid in the next month and the remainder the following month.

The lag in payment for wages is 1/4 month and 1/2 month for overheads.

The cash and bank balance on 1st October is expected to be kshs1,500.

Other information is given as follows:

- Plant and machinery are to be installed in August at a cost of kshs24,000. This sum will be paid in monthly installments of kshs500 each from 1st October.
- Preference share dividends @ 5% on kshs50,000 are to be paid on 1st December.
- Calls on 250 equity shares @ kshs2 per share are expected on 1st November.
- Dividends from investments amounting to kshs250 are expected on 31st December.
- Income tax (advance) is to be paid in December kshs500

QUESTION FIVE

i) Discuss the function of central bank in development of the economy (10 marks)

ii) Discuss the roles played by commercial banks in promoting economic growth (10 marks)