



# TECHNICAL UNIVERSITY OF MOMBASA

## *Faculty of Business & Social Studies*

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE

### **BFI 4300: INTRODUCTION FINANCIAL MANAGEMENT**

END OF SEMESTER EXAMINATIONS

**SERIES: AUGUST 2013**

**TIME: 2 HOURS**

#### **INSTRUCTIONS:**

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.

***This paper consists of Three printed pages***

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#### **QUESTION 1 (Compulsory)**

- a) Discuss the reasons why companies use long-term finance when short term Finance is cheaper? **(10marks)**
- b) What are the advantages and disadvantages of using Internal sources of finance? **(5marks)**
- c) The following information was extracted from the books of Bandari enterprises LTD.  
It is partly financed by Ordinary share capital of 10,000@ 20/- which is currently sell at 18/- the company reported a return of total capital employed of 25% and a dividend pay out ratio of 60%.  
Required: compute
  - i) Dividend yield **(2marks)**
  - ii) Earning yield **(2marks)**
  - iii) Earning share **(2marks)**
  - iv) P/E ratio **(2marks)**
  - v) Ordinary dividend cover **(2marks)**

Additional information:

Take tax to be 50%

- d) Define working capital. Discuss the long term source of working capital. **(5marks)**

## QUESTION 2

- a) A choice is to be made between two competing projects requiring an initial investment outlay of ksh.500.000 each and are expected to generate net cash flow (ie after-tax and before depreciation) as follows

End of year	project 1		Project II			
	Ksh.		Ksh.			
1	250,000		100,000			
2	150,000		120,000			
3	100,000		180,000			
4	-		250,000			
5	120,000		80,000			
6	60,000		40,000			
Year:	1	2	3	4	5	6
Pvf@10%	0.909	0.826	0.751	0.683	0.64	0.564

Required:

- Which project proposal should be accepted and why? **(5marks)**  
 b) List down the advantages and disadvantages of NPV method. **(5marks)**

## QUESTION 3

- a) One of your client has seen many reference to the term cost of Finance and he has asked you to explain this term to him. **(5marks)**  
 b) Mabati company Limited has the following capital structure which is assumed to be optimum as at 31.12.2012.

Equity capital	32,300
12% preference stock	13,000
9% debenture	<u>4,000</u>
	<u>49,300</u>

The company's shares' currently sell for 25% and the dividend due to be paid is 50% of the company's Eps.

The following is the level of the company earning per share.

Year	EPS
2008	1.77
2009	1.95
2010	currently 2.15

The company debentures currently sell at 95/= and new preference share sell at 21% and paying a dividend of sh.1.80 and a new debentures will be issued at a cost of 16%.

Required.

Compute the cost of capital. Tax 40%.

**(15marks)**

#### QUESTION 4

As a finance Manager of a well established company in your place of work. You have been asked to write about: ‘problem faced by Jua kali Industries’ by your General manager.

#### Required

Write a report in a point form possible areas of problems.

(20marks)

#### QUESTION 5

- a) Define and distinguish between funds flow and cash flow of a firm. What are the uses of cash flow analysis. (10marks)
- b) From the following Balance sheets as on 31<sup>st</sup> December 2011 and 2012, you are required to prepare a cash flow statement: (10marks)

	2011	2012
Liabilities	ksh	ksh
Stock capital	1000,000	1500,000
Profit & loss account	5000,000	800,000
General reserve	3000,000	400,000
6% Bonds	500,000	600,000
Sundry creditors	300,000	400,000
Outstanding Expenses	<u>100,000</u>	<u>150,000</u>
	<u>2,700,000</u>	<u>3850,000</u>
<b>Assets:</b>		
Fixed Assets	1000,000	1,500,000
Good will	500,000	400,000
Inventories	500,000	800,000
Debtors	500,000	800,000
Bills receivable	100,000	200,000
Bank	<u>100,000</u>	<u>150,000</u>
	<u>2,700,000</u>	<u>3850,000</u>