



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR
MASTERS OF BUSINESS ADMINISTRATION

BMF 5202: INVESTMENT & PORTFOLIO MANAGEMENT

END OF SEMESTER EXAMINATIONS

SERIES: AUGUST 2013

TIME: 3 HOURS

INSTRUCTIONS:

– Answer any **FOUR** questions.

This paper consists of Three printed pages

QUESTION 1

- a) A financial Market is described to be efficient if it meets some thresholds. Briefly explain these threshold and indicate how they impact an economic growth. (10marks)
- b) Kadzo has received her retirement benefits and is considering whether to invest to mutual funds or shares. She has come to your for advice
Required:
Explain to Kadzo both merits and demerits of investing in mutual funds. (10marks)
- c) Investors use different models to analyse investment opportunities or securities. Briefly describe the each of these models explaining clearly their assumptions. (10marks)

QUESTION 2

- a) **I**) Define the term risk as used in investment. (3marks)
ii) Alpha ltd is considering three possible capital projects for next year. Each projet has a one year life and project returns depend on the next years state of the economy the estimated returns are shown below.

State of the economy.	Probability	A	B	C
Recessin	0.25	10%	9%	14%
Average	0.5	14%	13%	12%
Boom	0.25	16%	18%	10%

Required:

- i) Compute each projects expected rate of return (3marks)
ii) Compute the standard deviation of each project. (8marks)
iii) Compute the co efficient of valuation for each project. (6marks)

QUESTION 3

- a) Mwaliko LTD has made plans for the next year. It is estimated that the company will employ total assats of sh.800,000. 50% of the assets being financed by borrowed Capital at an interest rate of 10%. The direct costs for the year are estimated to be sh.480,000 and all other operating expenses are estimated at sh. 80,000. The goods will be sold to customers at 160% of the direct costs tax rate is assumed to be 35%

Required:

- i) Incase statement. (4marks)
ii) Net profit margin (1.5marks)
iii) Returns on Assets (1.5 marks)
iv) Assets turnover ratio (1.5marks)
v) Returns on owner equity (1.5 marks)
b) The total sales (all credit) of a firm is sh. 640,000 it has a gross profit mark up of 25% and a current ratio of 2.5:1. The firms current liabilities are sh.96,000 inventories sh. 48,000 and cash sh.16,000.

Required:

- i) Determine the average inventory to be carried by the firm, if an inventory turns over ratio of 5 times is expected (5marks)
ii) Determine the average collection period if the opening balance of debtors is intended to be sh.80,000 (Assume a year of 360 days) (5marks)

QUESTION 4

- a) Kojo's LTD bought a 10,000,000 15% 8year bond in 2010. Bonds of similar risk but maturity in 5 years period have a market rate of 18%. He has realized that one of his major client is down financially and this has put his into some cash flows difficulties .
He is now considering liquidating the bond. Interest is paid annually.

(5marks)

Required: Calculate the price at which the company should liquidate the bond

- b) Mambo ltd to considering buying a machine that costs sh. 1000,000. The machines economic life is expected to be 5 years with a residual value of sh.150,000. The machine will reduce the current operating costs by sh 450,000 annually for its five year period.
The company policy is to provide for depreciation at 20% on cost. The company's tax rate is 35% and the cost of capital is 12%.

Required.

Advice the company on whether the machine should be bought or not using not value model. (15mark)

QUESTION 5

- a) Briefly describe five (5) functions of financial market. (10marks)
- b) Briefly explain any five (5) limitations of using financial Analysis as an investment model. (10marks)