



TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF COMMERCE

BFI4300: INTRODUCTION FINANCIAL MANAGEMENT

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2013

TIME: 2 HOURS

INSTRUCTIONS:

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

This paper consists of Three printed pages

QUESTION 1 (Compulsory)

The following financial statement relate to MAMU Bank ltd for the period ended 31-12-2012.

Liabilities	sh.	Assets	sh.
Ordinary share cap sh.	500,000	cash	28,500
Retained earnings	150,000	Debtor	270,000
10% Debentures	300,000	stock	285,750
Trade creditors	129,250		
9% preference share	54,000	Fixed Assets(net)	649,500
Other current liabilities	<u>100,500</u>		
	<u>1,233,750</u>		<u>1,233,750</u>

Income statement	sh
Sales	1,972,500
Less cost of sales	1,368,000
Gross profit	604,500
Selling Administration	348,750

Earning before interest& tax(EBIT)	255,750
Interest expenses	<u>30,000</u>
Earning after interst	255,750
Tax expense.	<u>54,437</u>
Net profit after tax	169,313
Dividends	<u>101,587</u>
Retained profit	<u>67,726</u>

Required:

Calculate the following ratios:

- i) Dividends field
(3marks)
- ii) Dividend payment ratio **(3marks)**
- iii) Interst cover **(3marks)**
- iv) Total Assets turn over **(3marks)**
- v) Return on Equity
(3marks)
- vi) Current ratio
(3marks)
- vii) Net profit margin **(3marks)**
- viii) Return on capital employed (ROCE)
(3marks)
- ix) Price earning ratio
(3marks)
- x) Tax rate
(3marks)

QUESTION 2

Banga ltd is considering the purchase of a new machine. Two alternative machines, Kazi and Kalo , which will cost sh. 6,000,000 and 7,000,000 respectively are available in the market. The cash flows after Taxation of each machine are follows:

Year	Kazi sh.	Kalo sh.
1	60,000	1,800,000
2	1,800,000	2,400,000
3	2,000,000	3,000,000
4	3,000,000	1,800,000
5	2,401,000	1,600,000

Required:

- a) What are the advantages of discounted cash flows methods as an appraisal technique. **(2marks)**
- b) Compute the net present value of each machine. **(8marks)**
- c) Assume that each machine percents a project. Compute the rate of return(IRR) Banga limited aspects to obtain in (a) and (b) above
(NB) The discount rate is 12%.

QUESTION 3

- a) The capital structure of Maputo Express LTD is as follows.
- | | |
|-------------------------------|-------|
| 12% Debentures | 4,000 |
| 8% preference shares (sh.1 @) | 4,000 |
| Ordinary share capital is @ | 6,000 |
| Retained earnings | 4,500 |

Additional information:

The company's dividend rate has been 15% with a growth rate of 5% and this is expected to continue into the future.

The ordinary shares of the company are currently trading at sh.26.25 per share.

Preference shares are currently trading at sh.9.50 while the 18% Debenture has a market value of A.5 millions.

The company's tax rate is 40%

Required:

- The company's marginal average cost of capital is the Market value. **(10marks)**
- b) Assume that Maputo wants to acquire a new exaction for its high and customer the cost of this bus is ksh.20 millions. The company has decided to finance the new acquisition through.
- 50% from sale of debentures at the current interest rate of 11%.
 - 30% from the sales of ordinary shares at the current market price of 26.25 per share.
 - The balance in come from the sale of 8% preference shares as the current rate of sh.9.50 per share. Ignore the floatation costs.

Required

The weighted Average cost capital for the new Bus(marginal/weighted Average cost of capital).

(10marks)

QUESTION 4

- a) Briefly explain any 5 reasons for preparation of each budget. **(5marks)**
- b) The following is an extract from the books of Totula PLC for the ended 31-12-2013.

Month	cost of sales Sh.00	sales sh.00
April	100	150
May	110	160
June	90	160
July	90	170
August	80	200
September	130	200
October	140	180
November	60	180
December	60	200

Additional information.

- i) Cash inhand at the end of May will be sh. 80,000.
- ii) Sales analysis reveals that 60% of sales to be received to the month of sales 25% to the following month and 10% two months later the balance is estimated as uncollectible note all sales are an credit.
- iii) The company policy is to acquire all goods projected to be sold in a given month before. All purchases are on credit and creditors before. All purchases are on credit are paid a month after the month of delivery.
- iv) Corporate tax of sh.20,000 is to be paid in September.
- v) The shareholders of the last annual General meet of increased the share capital by sh.50,000 and the first call of sh.30,000 will be received in August 2013.
- vi) The month administrative offence to aspected to be sh.30,000 including depreciation charge of sh.5,500 and preliminary affences of 3,500.
- vii) The company expects to receive sh.15,500 as a compensation to civil suit in October 2013.
- viii) Office equipment with sh.20,000 will be paid in Novemebr 2013.
- ix) Contractors retention money of sh.40,000 is to be paid in June 2012.

Required

A cash flow forecast (Bud get) for the period begin of 1st June to 30th November 2013. **(15marks)**

QUESTION 5

- a) Briefly explain the role of Financial management in an organization. **(10marks)**
- b) Briefly explain any FIVE (5) ways of manage of cash in an organization. **(10marks)**