JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF EDUCATION

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF AGRIBUSINESS WITH IT

3RD YEAR 1ST SEMESTER 2017/2018 ACADEMIC YEAR

MAIN CAMPUS

COURSE CODE: BBM 3317

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM VENUE: **STREAM: BSc. Agribusiness**

DATE: 1812/17 **EXAM SESSION: 2.00 – 4.00PM**

TIME: 2 HOURS

Instructions:

1. **Answer Question ONE (COMPULSORY) and ANY other 2 questions**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

Read the extract below and answer the questions *a, b, and* ***c*** **that follows**

Cap 486 of the laws of Kenya, main objective is to have an enterprise for equitable distribution of commodities at affordable prices whilst creating an outlet for the local manufactures.

On 17th December 1976 Uchumi shareholders, industrial commercial and development corporation (ICDC), Kenya Wines Agencies and Kenya National Trading Corporation (KNTC) and all Government owned Parastatals entered into a management contract with stands SPA of Italy.

Standa, a leading supermarket group with presence in Europe and Vast retail enterprise was given task to manage and train Kenya personnel who would eventually take over the running of the organization. The first three branches were opened in 1976 with the branch making the first milestone. In 1990s Uchumi spearheaded the hypermarket concept in Kenya.

The early 2000's Uchumi started to expanse financial and operational difficulties occasional by sub – optional expansion strategy coupled with weak control systems. This resulted in a market diminution of the company's resources which culminated in its morbidity to meet its obligation in an ongoing basis.

The retail giant was to dive finance strains when its posted a loss of Kshs. 690 million in June 2004 after two years of poor performance. It was headed for collapse until the PTA Bank gave it a bridging loan of Kshs. 500 million.

Although on the strength of advice from its financial adviser, Royal investment management services, the PTA Balls facility was converted into six-year loan to case the repayment burden, the bridging on board either a strategic equity partner or financer.

An attempt to negotiate with stratified partner fell flat due to the Boards Wavering and a feeling that Uchumi was a national institution that should not be sold to foreigners whose suitors included Shoprite which has a strong presence in Tanzania, Pick and Pay and Metro Cash & Carry, all from South Africa.

a) Identify the expansion strategy of Uchumi before it collapsed in 2006 ***(5marks)***

b) Why did the Board of Directors refuse to sell Uchumi Supermarket to the foreigners ***(5marks)***

c) Discuss what caused the collapse of Uchumi Supermarket in early 2000's. ***(10maks)***

d) Discuss the functions of Central bank of Kenya **(10 marks)**

QUESTION TWO

a) Mamboleo Weavers decides to buy a small office building costly Shs 20 million and take a fixed loan over 5 years at 10% per annum. The loan is to be paid in five equal installments starting at the end of the first year.

Required

i) Compute the annual repayment **(3mks)**
ii) Amortization schedules **(7mks)**

b) . K Ltd is evaluating an investment opportunity that would require an outlay of Ksh 100M. The annual net Cash inflows are estimated to Vary according to economic conditions as follows:-

Economic Conditions	Probability	Cash flows (sh 000)
Very Good	0.1	35000
Good	0.45	28000
Fair	0.3	24000
Poor	0.15	18000

The Firm's rate of return is 14%, the project has expected life of 6years.

Required

Compute the expected NPV of the proposed Investment (10marks)

QUESTION THREE

c) Explain the followings as used financial management

i) Accounting rate of returns **(2.5 marks)**
ii) Internal rate of returns **(2.5marks)**
iii) Dividend payout **(2.5marks)**
iv) Financial risks **(2.5 marks)**

a) Explain the importance of time value of money **(10 marks)**

QUESTION F

b) Consider a project with the following cash flow

Period	Cash flows (sh)
0	(1000,000)
1	400,000
2	350000
3	250000
4	200000

Required: determine the payback period (**5marks)**

c) Janet intends to deposit 300,00 for each year for the next four years in abank earning an interest of 10% p.a .Compute the future annuity of the amount **(5marks)**

QUESTION THREE

a) Describe the roles of a financial manager in a manufacturing firm **(10marks)**

b) Mr. Kazi is considering giving up his paid employment and going into business on his own account. He is considering buying a quarry pit with a "life" of about 35yrs. To buy this business he would have to pay sh.2375000 now. Mr. Kazi wishes to retire in 20yrs time. He predicts the net cash of operating receipts from this business will be sh.625, 000 p.a for the first time 15yrs and sh.500, 00p.a for the last 5yrs. He thinks that the business could be sold at the end of the 20yrs period for sh.750, 000. Additionally, he estimates that certain capital replacements and improvements would be necessary and this should amount to sh.50, 000p.a for the first 5yrs sh.75, 000p.a for the next five years, sh.100, and 000p.a for the next 7yrs and nothing for the last 3yrs. This expenditure would be incurred at the start of each year.

Mr. Kazi has excluded any compensation to himself from the above data. If he should purchase the business, however, he would have to leave his present job which he earns sh.250, 000 a year. To finance the purchase of this business, he would have to realize his present savings, which are invested to yield a return of 10% before tax and have a comparable risk factor.

Required.

a) Advice Mr. Kazi as to whether or not it is advisable to purchase the business in the right of information given. Ignore income tax **(5 marks)**

c) State any additional information which you would have liked to have available to you before giving advice to Mr. Kazi **(5mark)**

QUESTION FOUR

a)Marine Centre ltd has the following data.
Profit after tax Shs.30, 000,000
Total dividend for the year Shs.18, 000,000
Market price per share (MPS) shs.20
Number of ordinary shares 6,000,000

Using this data, determine the following investor ratios and explain their significance:

i) Earnings per share (EPS)
ii) Dividend per share (DPS)
iii) Price earnings ratio (P/E)
iv) Dividend payout ratio

(10 marks)

b) Bahati Company has the following capital structure.

Source	amount
Debentures	8,000,000
Preference capital	2,000,000
Retained earnings	4,000,000
Ordinary share capital	6,000,000
	20,000,000

The component costs of capital are; kd is 6%, kp is10.5%, kr is 14%,ke is 17.2%
Compute the WACC. **(10marks)**

QUESTION FIVE

Distinguish between the following types of capital budgeting

i) Divisible and indivisible projects (2.5 marks)
ii) Contingent and independent projects (2.5 marks)
iii) Acquisition and mutually exclusive projects (2.5 marks)
iv) Replacement and non-technical projects (2.5 marks)

b) The cash flow of project Qis given as follows. The initial investment was Sh. 100,000, while the expected cash flows provided in the table.

YEAR	CASHFLOWS (Shs.)
0	100,000
1	4,0000
2	13,000
3	14,000
4	15,000
5	11,000
6	9,000

Required:

i) Compute Net present value (NPV) of project Q when the cost of capital is 14% (**5marks)**

ii) Calculate internal rate of returns of the project **(5marks)**