



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF
INTERNATIONAL TOURISM MANAGEMENT
3RD YEAR 2ND SEMESTER 2013/2014 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BBM 3311

COURSE TITLE: FINANCIAL MANAGEMENT

EXAM VENUE:

STREAM : (BBA)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer Questions ONE (COMPULSORY) with reference to the case in section A and ANY other 2 questions in section B**
- 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.**

Q1 Kirui is considering an investment opportunity costing Sh.40,000,000 with the following expected cash flows:

Year	CFs(sh.'000')
1	7000
2	7000
3	7000
4	7000
5	7000
6	8000
7	10,000
8	15,000
9	10,000
10	4,000

The cost of capital is 10% .Compute the following:

- i) Net Present Value (8marks)
- ii) Internal rate of returns(10marks)
- iii)Advice the investor whether to undertake the project or not(2marks)

b)Write short notes on the following

- i) Capital pricing model
- ii) capital market line
- iv) Accounting rate of returns
- v) Payback period (10marks)

Q2.Differentiate capital structure from financial structure (10marks)

b) Identify the roles of financial planning (10marks)

Q3.The following information is provided by Zongi Zongi Music Club

status	probabilty	Project A	Project B
Optimistic prediction	0.1	7000	9000
Moderate prediction	0.4	7000	7000
Pessimistic prediction	0.5	7000	3000

Required:

- i) Compute the expected monetary value (5marks)
- ii) Compute the standard deviation (5marks)
- iii) Identify the most riskier project based on expected cash flows(5marks)
- iv) Which project is riskier based on deviation (5marks)

Q4.XYZ limitedis an investment company with the following 5 features of portfolio

Portfolio	A	B	C	D	E
ERP	14	12	12	16	18
$\hat{\sigma}_p$	6	8	6	11	14

If the rate of return of the market is 10% with standard deviation of 4% and risk free rate is 6% .Determine using the capital market line equation ,which is efficient, superefficient, inefficient(10marks)

b) Vanilla Poa Ltd. Company has the following capital structure

Source	Amount
Debenture	20,000,
Preference	20,000

Retained earnings	4,000
Ordinary Share capital	6,000

The components of cost of capital are:

Kd6%,Kp10.5%,Kr14%,Ke17.2%.Compute the weighted average cost of capital and show your workings(10marks)

Q5.Maedeleo ya Wanaume intends to purchase a tractor costing 60 million shillings and takes out a loan from a bank over 6 years at 12% p.a .The loan is repaid in six equal installment starting at the first of the year.

Required

- i) Compute the annual repayment amount (5marks)
- ii) Prepare the loan repayment schedule (12marks)
- iii) What factors should the company consider before seeking the loan from the bank (3marks)