



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE BACHELOR OF INTERNATIONAL
TOURISM MANAGEMENT FOR THIRD YEAR SEMESTER TWO

MAIN CAMPUS

BBM 3322: FINANCIAL MANAGEMENT AND CONTROL

DURATION: 2 HOURS

APRIL 2017 EXAMINATIONS

QUESTION ONE (30 MARKS)

- a) Actarm PLC ltd is examining two projects A and B in its supply chain operations whose projected cash flows are given below:

| Year | Project A Kshs | Project B Kshs |
|------|-------------------|-------------------|
| 0 | -3,800,000 | -3,400,000 |
| 1 | 2,600,000 | 2,000,000 |
| 2 | 1,300,000 | 1,200,000 |
| 3 | -700,000 | 2,200,000 |
| 4 | 100,000 | 500,000 |
| 5 | 550,000 | -760,000 |

The projects salvage value is Kshs 480,000 and Kshs 785,000 for projects A and B respectively.

- i) Using 8% as the discount rate compute the NPV values and advice the management on investment. (10 marks).
- ii) Given that the cost of obtaining and using capital is 10% compute the IRR and advice the management on investment. (10 Marks)

b) The following is an extract of information contained in the financial statements of ABC limited

| ABC ltd | | |
|------------------------------|---------------------|-------------------|
| Income Statement (extract) | | |
| | 2006 | 2005 |
| | Kshs | Kshs |
| Sales | 31,000 | 25,500 |
| Cost of sales | 18,000 | 16,000 |
| Gross profit | 13,000 | 9,500 |
| Operating expenses | 9,500 | 7,500 |
| Profit before taxation | 3,500 | 2,000 |
| Current years taxation | 1,600 | 900 |
| Profit after taxation | 1,900 | 1100 |
| Dividends | <u>600</u> | <u>600</u> |
| Retained profit for the year | <u>1,300</u> | <u>500</u> |

Use the information to compute the:

- (i) Profitability ratios (5 Marks)
- (ii) Revenue Ratios (5 Marks)

QUESTION TWO (20 MARKS)

- i) Discuss the following sources of finance in a firm:
 - a) Equity Capital (4marks)
 - b) Debentures Capital (4 marks)
- ii) Briefly discuss any three main objectives of a business firm (6 marks)

- iii) Explain the causes of conflict between shareholders and debenture holders in a business organization (6marks)

QUESTION THREE (20 MARKS)

- a) Discuss any four managerial finance functions of a manager (8 marks)
b) Explain the users and uses of financial statement analysis information (12marks)

QUESTION FOUR (20 MARKS)

- i) Briefly state the main characteristics of a sound financial plan (4marks)
ii) The following information relates to XY ltd's capital structure:

Ordinary shares (kshs 25 Par Value) kshs 8,000,000

8% Preference Shares (kshs 24 par Value) kshs 6,000,000

9% Participating Preference Shares (kshs 25 Par Value) kshs 8,000,000

10% Preference Shares (kshs 20 par Value) kshs 3,000,000

10% debentures (kshs 20 each) kshs 4,000,000

12% debentures (kshs 30 each) kshs 9,000,000

15% debentures (kshs30 each) kshs 9,000,000

Additional Information

- i) The firm intends to raise a medium term loan of 15 million from a commercial bank at an interest charge of 12% p.a, and 5.6 million long term loan at an interest charge of 10.6% p.a.
ii) The current market prices for the above sources of capital are:
- kshs 31 for ordinary shares and this is inclusive of a floatation cost of kshs 1.0 per share
- 8% preference shares were issued in 2004 and currently sell for kshs 20
- 9% Participating Preference Shares were issued in 2010 and currently sell for kshs 30.

- The 10% preference shares were issued in 2008 and currently sell for kshs 25.
- 10 % debentures that were issued in 2006 are perpetuities and currently sell for kshs 25
- 12% debentures were issued in 2010 and currently sell at kshs 40.
- 15% debentures were issued in 2012 and currently sell at kshs 35.

The ordinary shareholders expect cash dividends of kshs 3.80 per share indefinitely with a dividend growth rate of 3% p.a. the company pays a corporation tax rate at 40%. Use this information to calculate the weighted average cost of capital (WACC) for the company (16 Marks)

QUESTION FIVE (20 MARKS)

- a) Discuss the dangers of holding inadequate working capital in a business (5marks)
- b) Discuss the use of working capital cycle in business firms (5 marks)
- c) The following information was extracted from the books of BML and ABC limited companies for the financial periods 2015 and 2016 respectively

| | BML ltd 2015 KSHS | BML ltd 2016 KSHS | ABC ltd 2016 KSHS |
|-----------------------------------|-------------------------|-------------------------|-------------------------|
| Stock of Raw Materials | 40,000 | 60,000 | 60,000 |
| Work-in-progress | 10,000 | 18,000 | 20,000 |
| Finished goods stock | 50,000 | 70,000 | 100,000 |
| Debtors | 140,000 | 180,000 | 170,000 |
| Annual sales | 2,000,000 | 2,200,000 | 2,400,000 |
| Cost of production | 1,000,000 | 1,050,000 | 1,250,000 |
| Annual cost of sales | 1,200,000 | 1,250,000 | 1,000,000 |
| Trade creditors | 110,000 | 100,000 | 140,000 |
| Annual purchases of raw materials | 700,000 | 780,000 | 600,000 |

Use the information to compute the working capital cycle for the companies (10 marks)