



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)
MAIN CAMPUS**

**UNIVERSITY MAIN EXAMINATIONS
2022/2023 ACADEMIC YEAR**

SECOND YEAR EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COSMETOLOGY**

COURSE CODE: BCF 200

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: FRIDAY 21ST April 2023

TIME 12.00-2.00PM

INSTRUCTIONS TO CANDIDATES

Attempt **QUESTION ONE** and any other **TWO** questions

TIME: 2 Hours

MMUST observes **ZERO** tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

QUESTION ONE (30 MARKS)

- a) Define agency relationship from the context of a limited company and briefly explain how this arises. (5 marks)
- b) Highlight the various measures that would minimize agency problems between the owners and the management. (6 marks)
- c) Assume that you have just invested Ksh100, 000. The investment is expected to earn interest at a rate of 20% compounded annually. Determine the future value of the investment after 3 years.(4 marks)
- d) Jane was offered an investment that would pay sh 200,000 in year 1, sh 400,000 in year 2, sh 600,000 in year 3 and sh 800,000 in year 4. In the investment she could earn 12% interest on very similar investments. What is the most she could pay for this investment today? (5 marks)
- e) Explain the meaning of the term “cost of capital” and explain why a company should calculate its cost of capital with care. (6 marks)
- f) Outline four limitations of the accounting rate of return (ARR) method of appraising new investments. (4 marks)

QUESTION TWO (20 MARKS)

- a) Explain the factors influencing cost of finance. (5 marks)
- b) Sharon decided to invest Sh.100,000 in savings account paying 8% interest compounded semi annually. If she leaves the money in the account for 2 years how much will she have at the end of the two years? (5 marks)
- c) Kebbi limited has had good trading period and wants to raise further finance from the following sources.
 - The company sold 100,000 ordinary shares of sh.100 with a flotation cost of sh. 20 each
 - It sold 5,000 preference shares of sh.100 at sh. 150 which carry a dividend of 16%
 - It sold 5,000 sh. 100 10% debentures at sh. 80
 - It sold 10,000 sh. 50 12% debentures with issue cost of sh.15

The company hopes to earn a return on the above finance of 18%

Required

Compute the cost of ordinary share capital assuming that there is no retention. Take tax rate 30%. (10 marks)

QUESTION THREE (20 MARKS)

- a) JSC limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cost 80,000/=. Its expected inflows are:

YEAR	1	2	3	4	5	6
INFLOWS	60,000	72,650	35,720	48,510	91,630	83,715

sh.

This company can raise finance to purchase machine at 12% interest rate. Compute NPV and advise management accordingly. (10 marks)

- b) The following information relates to two potential investment namel ,M and k.

Investment M

investment K

Probability	return	probability	return
0.3	20%	0.2	20%
0.4	8%	0.6	8%
0.3	-4%	0.2	-4%

Required:

- i) Determine the expected return for each investment (2marks)
- ii) Determine the standard deviation of the investments (2marks)
- iii) The portfolio return if 30% of the total wealth is invested in M (3marks)
- iv) Advise on which investment to take based on risk (3marks)

QUESTION FOUR (20 MARKS)

A company is considering two mutually exclusive projects requiring an initial cash outlay of ksh 100,000 each and with useful life of 5years.the company required rate of return is 10% and the appropriate corporate tax is 30% depreciation is on straight line basis. cash flows before depreciation and taxes are as follows

Year	1	2	3	4	5
Project X	4,000	4,000	4,000	4,000	4,000
Project Y	6,000	3,000	2,000	6,000	5,000

Required:

Calculate each project

- i) Payback period (4marks)
- ii) Accounting rate of return (4marks)
- iii) Net present value (4marks)
- iv) Profitability index (4marks)
- v) Internal rate of return (4marks)

Which project should be accepted and why?