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**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: BTM 3322**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**EXAM VENUE: STREAM : (BITM)**

**DATE: 9/12/14 EXAM SESSION: 2.00 – 4.00PM**

**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 notesbon the following

i) Capital pricing model

ii) capital market line

iv) Accounting rate of returns

v) Payback period (10marks)

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

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

Q3.The following information is provided by ZongiZongi 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 |
| ∂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 yaWanaume 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)