MAASAI MARA UNIVERSITY

SUPPLEMENTARY/SPECIAL EXAMINATIONS
2019/2020 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER

SCHOOL OF TOURISM HOSPITALITY AND
LEISURE STUDIES
BACHELOR OF TOURISM MANAGEMENT

COURSE CODE: BTM 3107
COURSE TITLE: FINANCIAL MANAGEMENT
AND CONTROL

DATE: 5TH NOVEMBER 2020   TIME: 8.30-10.30AM

Section A - 25 Marks

1a. The functions of a finance manager can broadly be divided into managerial and routine functions, discuss. **(6 marks)**

b. K is contemplating purchasing a 3 year bond worth Sh 40,000 carrying a nominal coupon rate of interest of 10% .K required rate of return is 6 %, what should he be willing to pay now to purchase the bond if it matures at par?

(3 Marks)

c. A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh.10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%.The project will be depreciated on a straight line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows

Year	1	2	3	4	5
Project A Shs.4,000		4,000	4,000	4,000	4,000
Project B Shs.6,000		3,000	2000	5,000	5,000

Required

Calculate for each project:

i. The payback period **(1 mark)**

ii. The average rate of return **(1 mark)**

iii. The net present value **(6 marks)**

iv. The profitability index **(1 mark)**

v. The internal rate of return **(6 marks)**

Which project should be accepted and why? **(1 mark)**

Section B- 45 Marks

2. Discuss any five sources of short and medium term finance to a business entity giving advantages and disadvantages of each **(15 marks)**

3a. Valuation of shares is the process of knowing the value of company's shares. This process is necessary particularly to listed companies which are traded publicly discuss; **(5 marks)**

b. Four assets have the following distributions of returns

Probability	Rate of return (%)			
Occurrence	A	B	C	D
0.1	10.0	6.0	14.0	2.0
0.2	10.0	8.0	12.0	6.0
0.4	10.0	10.0	10.0	9.0
0.2	10.0	12.0	8.0	15.0
0.1	10.0	14.0	6.0	20.0

Required:

i.   Compute the expected return and the standard deviation of each asset
(4 marks)

ii. Compute the covariance of asset
    A and B
    B and C **(4 marks)**
iii. Compute the correlation coefficient of the combination of assets A and B above. **(2 marks)**

4a. Discuss any three factors that influences a business cost of finance.
(3 marks)

b. The following is the capital structure of XYZ ltd as at 31st December 2018

	Shs.M
Ordinary share capital at Sh.10 par value	400
Retained earnings	200
10% preference share capital Sh.20 par value	100
12% debentures Sh.100 par value	200
	900

Additional information

1) Corporate tax rate is 30%

2) Preference shares were issued 10 years ago and still selling at par value
   MPS=Par value

3) The debentures has a 10 year maturity period.It is currently selling at
   Sh.90 in the market

4) Currently the firm has been paying dividend per share of Sh.5.The DPS
   is expected to grow at 5% p.a. in future. The current MPS is Sh.40

Required

i.   Determine the WACC   **(8 marks)**

ii.   Explain why market values and not book values are used to determine
the weights.   **(2 marks)**

iii.   What are the weaknesses associated with WACC when used as the
discounting rate in project appraisals   **(2 marks)**

5a. The arbitrage pricing theory (APT) is much more robust than the capital
asset pricing model (CAPM) for several reasons, discuss.   **(5 marks)**

b. Differentiate between the following terms as used in financial management

i.   Diversifiable and non diversifiable risk

ii.   Capital markets and money markets

iii.   Liquidity ratios and profitability ratios

iv.   Fixed assets and current assets   **(4 marks)**

c. Dividend policy is the policy used by a company to decide how much it will
pay out to shareholders in dividends, there are several theories underlying it,
discuss any three.   **(6 marks)**

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