



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS  
2019/2020 ACADEMIC YEAR  
FOURTH YEAR FIRST SEMESTER**

**SCHOOL OF TOURISM, HOSPITALITY AND  
LEISURE STUDIES  
BACHELOR OF HOTELS AND HOSPITALITY  
MANAGEMENT**

**COURSE CODE: BHM 4105**

**COURSE TITLE: FINANCIAL LMANAGEMENT**

**DATE: 2<sup>ND</sup> DECEMBER 2019**

**TIME: 2.30 – 4.30PM**

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**INSTRUCTIONS TO CANDIDATES**

Answer **ALL** questions in section **A** and any other **TWO** in section **B**.

*This paper consists of 2 printed pages. Please turn over*

**Answer all questions in section A and any three questions in section B**

**Section A 30 MARKS**

1.

a) Discuss the primary objectives of financial management **(6 marks)**

b) 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 (2 marks)
- ii) The average rate of return (2 marks)
- iii) The net present value (6 marks)
- iv) The profitability index (1 marks)
- v) The internal rate of return **(6 marks)**
- vi) Which project should be accepted and why? **(2 mark)**

## Section B

2.

- a) The functions of a finance manager can broadly be divided into managerial and routine functions, discuss. (5 marks)
- b) Define budgetary control and discuss the five main uses of budgetary control system (10 marks)

3.

- a) In what way is the Wealth maximization objective superior to the profit maximization objective; Explain (4 marks)
- b) The following figures relates to the trading activities of ABC traders limited for the year ended 30<sup>th</sup> June 2018

### ABC TRADERS LIMITED

	Sh.
Sales	1,500,000
Purchases	966,750
Opening stock	228,750
Closing stock	295,500
<b>Selling and distribution expenses</b>	
Salaries	45,900
Advertising	14,100
Travelling	6,000
<b>Non-operating expenses</b>	
Loss on sale of Assets	12,000
<b>Administrative expenses</b>	
Salaries	81,000
Rent	8,100
Stationary,postage,etc	7,500
Depreciation	27,900
Other charges	49,500
Provision for taxation	120,000

**Non –operating income**

Dividend on shares	27,000
Profit on sale of shares	9,000

Required:

- i) Rearrange the above figures in a form suitable for analysis  
(5 marks)
  - ii) Show separately the following ratios: Gross profit ratio, Operating ratio and Stock turnover ratio  
(6 marks)
- 4.
- a) Differentiate between the following terms;
    - i) Capital and money markets
    - ii) Primary and secondary markets
    - iii) Liquidity ratios and gearing ratios  
(6 marks)
  - b) Discuss the roles of stock exchange in economic development (9 marks)
- 5.
- a) Capital Market Authority (CMA) was established by an act of parliament to assist in creation of a conducive environment for growth and development of capital markets in Kenya, discuss its roles (10 marks)
  - b) XYZ Company has prepared a sales budget of 42,000 finished units for the next quarter starting 1<sup>st</sup> January .The Company has a stock of 22,000 units of finished goods on hand at 31<sup>st</sup> December and has a target finished goods stock of 24,000 units at the end of the succeeding quarter.

It takes 3 litres of direct materials to make one unit of finished product. The company has a stock of 90,000 litres of direct materials at 31<sup>st</sup> December and has a target closing stock of 110,000 litres .One litre of material costs Sh.3.50

Required;

Determine the material purchases budget for XYZ Company for the forthcoming quarter (5 marks)

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