



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF COMMERCE**

**UNIVERSITY ORDINARY EXAMINATION**

**2020/2021 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF  
SCIENCE IN ACTUARIAL SCIENCE**

**AMC 410– PRINCIPLES OF FINANCIAL MANAGEMENT**

**DURATION: 2 HOURS**

**Instructions to candidates:**

1. Answer question One and Any Other Two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination paper.

**QUESTION ONE -(30MARKS)**

- a) Define the term capital restructuring. (2marks)
- b) Distinguish between the goals of profit maximization and shareholder's wealth maximization. (4marks)
- c) State three benefits of financial forecasting. (3marks)
- d) Highlight three advantages of using ordinary share capital to a company. (3marks)
- e) List three principles of taxation. (3marks)
- f) Outline four reasons why individuals prefer current cash over future cash. (4marks)
- g) Identify four reasons behind capital rationing. (4marks)
- h) Murang'a Aqua Ltd has a proposal for a project whose cost is Ksh500,000 and has an economic useful life of 8 years.it has a residual value of Ksh20, 000.the corporate tax rate is 30% and depreciation is calculated on straight line basis. The earnings before depreciation and tax expected from the project are as follows: -

Year	Earnings before depreciation and tax
1	120,000
2	150,000
3	180,000
4	200,000
5	250,000
6	300,000
7	310,000
8	320,000

**Required: -**

- a) Calculate the depreciation. (2marks)
- b) Determine the accounting rate of return (ARR) of this project. (5marks)

**SECTION B: ANSWER ANY TWO QUESTIONS**

**QUESTION TWO- (20MARKS)**

- a) So as to ensure that budget serves as an effective technique of managerial decision making, certain cardinal principles must be observed.in view of this statement, discuss five major principles of budgeting. (10marks)
- b) Project B has the following cash flows with an initial capital of Ksh250,000 and a useful life of 10years.the cost of capital is 12%.

Year	Cash flows (Sh)
1	21,000
2	22,000
3	23,000
4	24,000
5	25,000
6	26,000
7	27,000
8	28,000
9	29,000
10	30,000

**Required: -**

- i. Calculate the NPV of this project. (8marks)
- ii. State whether the project is acceptable or not and give a reason for your answer. (2marks)

**QUESTION THREE -(20MARKS)**

- a) Explain five main roles of capital market authority. (10marks)
- b) Examine four advantages of residual dividend theory. (4marks)
- c) A person has invested Ksh80,000 at the rate of 15% for two years. Calculate the future value if interest is paid.
- i. Semi –annually (2marks)
- ii. Quarterly (2marks)
- iii. Monthly (2marks)

**QUESTION FOUR- (20MARKS)**

- a) Discuss five important determinants of working capital requirements of a firm. (10marks)
- b) Explain five major causes of conflict between shareholders and management .(10marks)