



## **MURANGA UNIVERSITY COLLEGE**

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAIN CAMPUS**

**MAIN UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOR THE DIPLOMA**

**IN**

**BUSINESS MANAGEMENT/  
INFORMATION TECHNOLOGY.**

**COURSE CODE: DBF 1121**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 14<sup>TH</sup> DECEMBER, 2015**

**TIME: 2 HOURS.**

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### **INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer any other TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

### QUESTION ONE.

- a) Objectives of financial management are broadly divided into two. Discuss (5 marks)
- b) State FIVE favorable arguments for profit maximization. (5 marks)
- c) A person who deals with Finance related activities is called a Finance manager. He/she performs some major functions. Discuss FIVE functions (10 marks.)
- d) State FIVE effects of overcapitalization (5 marks)
- e) A project costs Rs. 2,000,000 and yields annually a profit of Rs. 3,00,000 after depreciation @ 12½% but before tax at 50%. Calculate the pay-back period. (5 marks)

### QUESTION TWO

- a) John will receive sh. 1,600,000 in 40 years. His friends are very jealous of him. If the funds are discounted back at a rate of 12 percent, what is the present value of his future investment? (5 marks.)
- b) State FIVE advantages of the internal rate of return. (5 marks.)
- c) Mwamu computer systems limited has forecasted returns on its share with the following probability distribution:

| Return (%) | Probability |
|------------|-------------|
| -20        | 0.05        |
| -10        | 0.05        |
| -5         | 0.10        |
| 5          | 0.10        |
| 10         | 0.15        |
| 18         | 0.25        |
| 20         | 0.25        |
| 30         | 0.05        |

Calculate the expected return, Variance and standard deviation of returns for star. (10 marks.)

### QUESTION THREE

- a) Discuss the FOUR technique based on the classification of inventories (8 marks)
- b) The return of an investment consists of TWO components. Explain the components. (4 marks)
- c) Managing cash flows consist of TWO important parts.
  - i. State FOUR techniques applied by speedy cash collection (4 marks)

- ii. Explain TWO methods which help with slowing disbursement of cash (4 marks)

#### QUESTION FOUR

- a) Discuss FIVE features of Equity shares. (10 marks)
- b) Your grandfather has offered you a choice of one of the three following alternatives: \$ 5,000 now; \$ 1000 a year for eight years; \$ 12,000 at the end of 8 years. Assuming you could earn 11 percent annually which alternative could you choose? (5 marks)
- a) The central bank issues a 10 year sh. 100,000 face value bond, if the market yield is 10% and the bond is zero coupon type:
- i. Calculate its value. (5 marks)