



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

SUPPLEMENTARY/ SPECIAL UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FOR THE DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DBF 1121

COURSE TITLE: FINANCIAL MANAGEMENT

TIME: 2 HOURS.

INSTRUCTIONS TO CANDIDATES

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

MRUC observes ZERO tolerance to examination irregularities

QUESTION ONE

- a) The finance functions can be divided into FOUR broad categories discuss. (10 marks.)
- b) A company is considering the following investment projects;

Projects	Cashflows (c)			
	0	1	2	3
A	-10,000	10,000		
B	-10,000	7,500	7,500	
C	-10,000	2,000	4,000	12,000
D	-10,000	10,000	3,000	3,000

Rank the projects according to each of the following projects assuming discount rates of 10 and 30 percent:

- i. Pay back
 - ii. ARR
 - iii. NPV (15 marks.)
- c) Explain the relationship between dividends and retained earnings. (5 marks.)

QUESTION TWO.

- a) What is a bond? Relate it with debenture and what are the features of a bond? (10 marks.)
- b) Frema Company opportunity cost of funds is 15% per annum. The company will have to incur \$ 150 per transaction when it converts its short term securities to cash. Determine the optimum cash balance. How much is the total annual cost of the demand for the optimum cash balance? (6 marks.)
- c) State the boumol model assumptions. (4 marks.)

QUESTION THREE.

- a) 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. (15 marks.)

- b) 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.)

QUESTION FOUR.

- a) Who are the users of financial analysis Ratios? (5 marks.)
b) Lema company will employ total assets of \$ 800,000 50% of the assets are financed by borrowed capital at an interest cost of 8%.Tax rate is assumed to be 50%.

	\$	\$
Sales		720,000
Direct cost		480,000
Gross profit		240,000
Operating expenses	80,000	
Interest charges	32,000	112,000
Profit before tax		128,000
Taxes		64,000
Net profit after taxes		64,000

Calculate;

- i. Net profit margin
- ii. Return on assets
- iii. Assets turnover
- iv. Return on equity.
- v. Calculate three more financial ratios of your choice. (15 marks.)