



# **MURANGA UNIVERSITY COLLEGE**

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

**MAIN CAMPUS**

**SUPPLEMENTARY/ SPECIAL UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOR THE DIPLOMA**

**IN**

**BUSINESS MANAGEMENT/ INFORMATION  
TECHNOLOGY.**

**COURSE CODE: DBF 1121**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**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) A firm performs finance functions simultaneously and continuously in the normal course of business. Discuss the functions. (8 marks.)
- b) Mr. Kome has borrowed a 3 year loan of \$ 10,000 at 9% interest rate from a bank to buy a bicycle. The bank requires 3 equal end of year repayments, what is the annual installment? (4 marks.)
- c) Explain FOUR main features of a bond. (8 marks.)
- d) K Company is issuing a \$1000 5 year bond whose interest rate is 9%. The principal will be repaid over the whole life of the bond and the investors required rate of return is 10%. Calculate the value of the bond. (10 marks.)

QUESTION TWO.

- 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.)

QUESTION THREE

- a) State and explain a firms motive of holding cash. (10 marks.)

- b) Financial management is directly related to various functional departments. It covers a wide area with multidimensional approaches. Discuss FIVE important scopes. (10 marks.)

#### QUESTION FOUR

- a) Discuss the various forms that inventories exist in a company and the general motives for holding inventories and state the features of an effective inventory management. (10 marks.)
- b) A \$ 100 perpetual bond is currently selling for \$ 95. The coupon rate of interest is 13.5 percent and the appropriate discount rate is 15 percent. Calculate
- i. The value of the bond should it be bought .
  - ii. its yield at maturity. (10 marks.)