



## **MURANGA UNIVERSITY COLLEGE**

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

**MAIN CAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**FOR THE DIPLOMA**

**IN**

**BUSINESS MANAGEMENT**

**COURSE CODE: DBF 1121**

**COURSE TITLE: FINANCIAL MANAGEMENT**

**DATE: 23 RD APRIL 2015**

**TIME: 2 HOURS.**

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### **INSTRUCTIONS TO CANDIDATES**

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

MRUC observes ZERO tolerance to examination irregularities



### QUESTION ONE

- 1) A firm performs finance functions simultaneously and continuously in the normal course of business. Discuss the functions. (8 marks.)
- 2) 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.)
- 3) Explain FOUR main features of a bond. (8 marks.)
- 4) Discuss at least FIVE factors leading to the failure of financial institutions in Kenya. (10 marks.)

### QUESTION TWO

- 1) A company proposes to sell a 10 year debentures of \$ 10,000 each. The company would repay \$ 1,000 at the end of every year and will pay interest annually of 15% on the outstanding amount. What is the present value if the capitalization rate is 16%? (12 marks.)
- 2) Capital budgeting is the process of making investment decisions , discuss at least FOUR importance of capital budgeting.

### QUESTION THREE

- 1) Xplico Company has made plans for the next year. It is estimated that the company will employ total assets of \$ 800,000: 50% of the assets being financed by borrowed capital with an interest cost of 8% per year. The direct costs for the year are estimated at \$ 480,000 and all other operating expenses are estimated at \$ 80,000. The goods will be sold to customers at 150% of the direct costs. Tax rate is assumed to be 50%. Calculate:
  - a) Net profit margin
  - b) Return on assets
  - c) Assets turnover
  - d) Return on owners equity
  - e) Any other 3 ratios of your choice. (15 marks.)
- 2) State FIVE disadvantages of the net present value. (5 marks.)

### QUESTION FOUR

- 1) Shey and Shayans Company is considering an investment proposal involving an initial cash outlay of \$ 500,000 with expected cash inflows of \$ 200,000, 150,000, 250,000 and 100,000 in 4 years, using profitability index appraise the project assuming 10% discount rate. (10 marks.)
- 2) 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.)