MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FOR THE DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DBF 1121

COURSE TITLE: FINANCIAL MANAGEMENT

DATE:28TH OCTOBER 2015 TIME: 2 HOURS.

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE

a) Discuss the importance/ functions of finance (10 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.)
c) 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 lternative could you choose? (10 marks.)
d) State FOUR main features of a bond. (5 marks.)

QUESTION TWO.

a) 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.)
b) Discuss the advantages and disadvantages of the net present value method. (10 marks.)

QUESTION THREE.

a) Consider the following projects with an initial cash flow of $ 1,000.

Years	Cash inflow
1	200
2	400
3	300
4	500
5	400

i. If the cost of capital is 10 percent calculate the net present value of the project.
ii. Calculate the pay back period for the project.
iii. Using profitability index, appraise the project assuming a 10 percent discount rate. (15 marks.)

b) State the reasons that explain the time preference for money. (5 marks.)

QUESTION FOUR.

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) Who are the users of financial analysis. (5 marks.)