



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

MAIN UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FOR THE DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DBF 1121

COURSE TITLE: FINANCIAL MANAGEMENT

DATE: 20TH AUGUST 2015

TIME: 2 HOURS.

INSTRUCTIONS TO CANDIDATES

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

MRUC observes ZERO tolerance to examination irregularities

QUESTION ONE.

- a) What is SHW maximization? Discuss FIVE favorable reasons for wealth maximization. (11 marks)
- b) Write short notes on the following terms:
- i. Equity shares (2 marks)
 - ii. Preference shares (2 marks)
 - iii. No par stock (2 marks)
 - iv. Deferred shares (2 marks)
- c) A Certain project requires an initial cash outflow of Rs. 25,000. The cash inflows for 6 years are Rs. 5,000, Rs. 8,000, Rs. 10,000, Rs. 12,000, Rs. 7,000 and Rs. 3,000. Calculate the projects payback period. (5 marks)
- d) Discuss the motives for holding cash. (6 marks.)

QUESTION TWO

- a) From the following information
- Normal usage: 100 units per week
Maximum usage: 150 units per week
Minimum usage: 50 units per week
Re-order quantity (EOQ) 500: units
Log in time: 5 to 7 weeks
- Calculate,
- i. Reorder level (2 marks)
 - ii. Maximum level (3 marks)
 - iii. Minimum level (3 marks)
 - iv. Average level. (2 marks)
- b) 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.
 - ii. Suppose the price of the bond was sh. 52000 calculate the yield to maturity.(10 marks.)

QUESTION THREE

- a) 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 (3 marks.)
- ii. Return on assets (3 marks.)
- iii. Assets turnover (3 marks.)
- iv. Return on equity. (3 marks.)
- b) Company XYZ Ltd. Has identified a project which will cost sh. 15,000 and forecasts indicate that this project will generate income returns of 8000, 7000 and 6000 from year one to year three respectively. The company will pay an interest rate of 15% per annum. Compute NPV for the project and advice the client accordingly. (5 marks.)
- c) State THREE advantages and TWO disadvantages of NPV. (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. (10 marks.)

- b) Explain FIVE Features of a bond. (10 marks.)