



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBC2202

**COURSE TITLE: INTRODUCTION TO FINANCIAL
MANAGEMENT**

DATE: 22ND APRIL 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

**Question ONE (1) is Compulsory
Answer ANY OTHER TWO (2) questions**

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

QUESTION ONE (20mks)

- (a) Although profit maximization has long been considered as the main goal of a firm, shareholders wealth maximization is gaining acceptance amongst most companies as the key goal of a firm.
- (i) Distinguish between the goals of profit maximization and shareholders wealth maximization. (2mks).
- (ii) Explain three important features of the goal of wealth maximization. (6mks).
- (b) Explain any four reasons why commercial banks prefer to lend short term loans, over long term loans. (8mks).
- (c) The financial manager of manifested technologies wishes to determine the expected rate of return from a proposed investment project. The expected returns from the project are related to future performance of the economy over the period as follows: -

Economic Scenario	Probability of occurrence (P)	Rate of return (R)
Strongh economy	0.25	15%
Moderate growth	0.50	12%
Low growth	0.25	8%

- Determine the expected return. (4mks).
- (d) Explain any five functions as Central Depository System. (10mks).

QUESTION TWO (20mks)

- (a) Highlight any for importance of working capital management. (8mks).
- (b) Explain any six factors that influence the cost of finance. (12mks).

QUESTION THREE (20mks)

- (a) Highlight five aspects that are necessary for the valuation of securities and shares. (10mks).
- (b) Explain the role of Capital Market Authority. (10mks)

QUESTION FOUR (20mks)

- (a) Discuss the importance of financial management. (10mks).
- (b) Jeremy Limited company wishes to expand its output by purchasing a new machine worth sh. 170,000 and installation costs are estimated at sh. 40,000. In the fourth year, this machine will call for an overhaul to cost sh. 80,000. Its expected inflows are as follows.

Year	Sh.
1	60,000
2	72,650
3	35,720
4.	48,510
5	91,630
6	83,715

This company can raise finance to purchase machine at 12% interest rate. Compute Net Present Value (NPV) and advise management accordingly. (10mks).