



## **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**

**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) 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
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-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.)