

DIPLOMA IN BUSINESS MANAGEMENT.

YEAR OF STUDY: 2014

TOWN CAMPUS. SUPPLEMENTARY EXAMINATION.

DBF 1122: FINANCIAL MANAGEMENT.

TIME: 2 HOURS.

INSTRUCTIONS:

Answer ALL the questions.

QUESTION ONE.

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.
- iv. State at least THREE advantages and THREE disadvantages of net present value.
(20 marks.)

b) State and explain a firms motives of holding stock. (10 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) 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.)

QUESTION THREE.

- a) A customer has been ordering 5,000 units at the rate of 1,000 units per order during last year. The production cost is \$ 12 per unit \$ 8 for material and labour and \$ 4 overhead cost. It cost \$ 1500 to set up for one run of \$ 1,000 units and inventory carrying cost of 20% of the production cost. The customer may buy 5,000 units these year. Determine the most economic production line. (10 marks.)
- b) 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.)