



MURANG'A UNIVERSITY COLLEGE

(A Constituent College of Jomo Kenyatta University of Agriculture and Technology)

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE.

**HBC 2202/HBT2303: INTRODUCTION TO FINANCIL MANAGEMENT/FINANCIAL
MANAGEMENT**

SPECIAL/SUPPLEMENTARY EXAMINATION

ACADEMIC YEAR: 2014/2015

YEAR 2: SEMESTER 1

DATE: 3RD AUGUST 2015

DURATION: 2 HOURS

INSTRUCTIONS

Question One is Compulsory. Answer any other TWO questions

QUESTION ONE(30MKS)

- a) Explain the five functions of financial markets in an economy. (10mks)
- b) Highlight any four similarities between debt and preference share capital. (8mks)
- c) Marion decided to invest shs 10,000 in savings account paying 8% interest compounded semi- annually .If she leaves the money in the account for 2 years ,how much will she have at the end of the two years. (4mks)
- d) Explain four factors that influence the cost of capital. (8mks)

QUESTION TWO(20MKS)

- a) Describe any five reasons why the activities in the National Securities Exchange are normally low. (10mks)

b) The following is the capital structure of ABC Ltd as at 31/12/2103.

	Shs (million)
Ordinary Share Capital (Shs 10 par value)	400
Retained Earnings	200
10% Preference share capital shs 20 par value	100
12 % debenture shs 100 par value	200

Additional information

- i) Corporate tax rate is 30%
- ii) Preference shares were issued 10 years ago and are still selling at par value MPS per value.
- iii) The debenture has 10 years maturity period it is currently selling at shs 90 in the market.
- iv) Current the firm has being paying divided to grow at 5% per annum in future. The current MPS is shs 400.

Determine the weighted Average Cost of Capital (WACC). (10mks)

QUESTION THREE

- a. Explain any five functions of commercial banks. (10mks)
- b. Highlight five factors to consider when buying shares of company. (10mks)

QUESTION FOUR

- a. Highlight five basic assumptions made by the Economic Order Quantity(EOQ) (10mks)
- b. Discuss some of the solutions to shareholder and management conflict of interest.(10mks)

QUESTION FIVE

- a) Explain five functions of a Finance Manager. (10mks)
- b) Discuss the three main types of Financial Assets (6mks)
- c) Differentiate between money market and capital markets (4mks)