



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

### **DEPARTMENT OF COMMERCE**

#### **UNIVERSITY ORDINARY EXAMINATION**

**2017/2018 ACADEMIC YEAR**

#### **SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT**

**BCF 050 PRINCIPLES OF FINANCE**

**DURATION: 2 HOURS**

**DATE: 19<sup>TH</sup> APRIL 2018**

**TIME: 9.00-11.00AM**

#### **Instructions to Candidates:**

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

## SECTION A – ANSWER ALL QUESTIONS IN THIS SECTION

### QUESTION ONE

- a) Define the following terms as used in finance.
- i. Finance (1 mark)
  - ii. Agency Problem (1 mark)
  - iii. Sunk costs (1 mark)
  - iv. Financial leverage (2 marks)
  - v. Inflation (1 mark)
  - vi. Incremental cash flow (2 marks)
- b) Outline two reasons for capital rationing by management (2 marks)
- c) State any five functions of a financial manager (5 marks)
- d) Identify any 2 factors that affect a project incremental cash flow (2 marks)
- e) Highlight any 3 characteristics of an ideal capital budgeting technique (3 marks)
- f) i. Project A has the following cash flows with an initial capital of Ksh 150,000 and is expected to last for 10 years. Using 8 % as the cost capital

| YEAR | CASH FLOWS |
|------|------------|
| 1    | 18,000     |
| 2    | 17,000     |
| 3    | 16,000     |
| 4    | 15,000     |
| 5    | 15,000     |
| 6    | 14,000     |
| 7    | 13,000     |
| 8    | 12,000     |
| 9    | 11,000     |
| 10   | 10,000     |

- 1. Calculate with NPV (5marks)
- 2. State whether or not project a is acceptable (2 marks)

- ii. The following project had an initial outlay of ksh,50,000.The project to last for 5 years  
Calculate its payback period (3 marks)

| YEAR | CASHFLOW |
|------|----------|
| 1    | 15,000   |
| 2    | 25,000   |
| 3    | 35,000   |
| 4    | 45,000   |
| 5    | 55,000   |

## SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION

### QUESTION TWO

- a) i. An inheritance of Ksh 50,000 is expected 15 years from today at a time when interest rate is 6% .what is the present value of that inheritance (5 marks)
- ii. Explain the nature of financial management (5 marks)
- b) Explain any five factors that firms consider in making capital structure decisions (10 marks)

### QUESTION THREE

- a) i. Explain any five factors that affect a business risk (10 marks)
- ii. Explain 4 roles of finance in long term planning of a business (4 marks)
- a) Changes in price levels are measured using price indices. Define price index and explain any three types of price indexes (6 marks)

### QUESTION FOUR

- a) Discuss five reasons why business planning is important (10 marks)
- b) i. Identify three forms of business organizations and clearly state their features (6 marks)
- ii. Outline any four sources of long-term finance (4 marks)