



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2017/2018 ACADEMIC YEAR

SECONDYEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BCF 200 –FINANCIAL MANAGEMENT

DURATION: 2 HOURS

DATE: 20TH APRIL, 2018

TIME: 9.00- 11.00 A.M.

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) John will receive Sh. 1,600,000 in 40 years. His friends are very jealously of him. If the funds are discounted back at a rate of 12%, what is the present value of his future investment? (5 marks)
- b) Explain the reason that explains the time preference for money. (5 marks)
- c) Discuss THREE motives for holding cash. (6 marks)
- d) The Central Bank issues a 10 year Sh. 100,000 face value bond, if the market yield is 10% and the bond is Zero Coupon type.
- i. Calculate its value. (3 marks)
- ii. Suppose the price of the bond was Sh. 52,000. Calculate the yield to maturity. (5 marks)
- e) State THREE advantages and THREE disadvantages of NPV. (6 marks)

SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION

QUESTION TWO

- a) Elema Company will employ total assets of Sh. 800,000. 50% of the assets are financed by borrowed capital at an interest cost of 8%. Tax rate is assumed to be 50%.

	Sh.	Sh.
Sales		720,000
Direct Cost		480,000
Gross profit		240,000
Operating expenses	80,000	
Interest charges	32,000	112,000
Profit before tax		
Taxes		64,000
Net profit after taxes		64,000

Calculate:

- i. Net Profit margin. (4 marks)
- ii. Return on Assets. (3 marks)
- iii. Assets turnover. (3 marks)
- iv. Return on equity. (3 marks)
- b) Explain FIVE features of a bond

QUESTION THREE

- a) 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. (10 marks).

- b) What is inventory Management? (2 marks)
- c) Discuss the FOUR qualities of an effective Inventory management (8 marks)

QUESTION FOUR

- a) Financial management is directly related to various functional departments. It covers a wide area with multi-dimensional approaches. Discuss FIVE important scopes. (10 marks)
- b) A certain project requires an initial cash outflow of Sh. 25,000. The cash inflows for 6 years are Sh. 5,000, 8,000, 10,000, 12,000, 7,000, and 3,000. Calculate the project's Payback period. (5 marks)
- c) Company XYZ Ltd. has identified a project which will cost Sh. 15,000 and forecasts indicate that this project will generate income returns of 8,000, 7,000, and 6,000 from year one to year three respectively. The Company will pay an interest rate of 15% p.a. Compute NPV for the project and advise the client accordingly (5 marks)