



# MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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## University Examinations 2010/2011

SECOND YEAR, THIRD TRIMESTER EXAMINATIONS FOR DIPLOMA IN INFORMATION TECHNOLOGY

CED 0305: FINANCIAL MANAGEMENT

DATE: DECEMBER 2010

TIME: 1½ HOURS

INSTRUCTIONS: *Answer All the Three Questions*

### QUESTION ONE – (30 MARKS)

Beta Company Ltd is planning to invest in the following assets in order to carry out beer distribution business in the entire Meru County. It has only a capital of Kshs20,000,000 (initial funds from owners).

<u>Assets (Investments)</u>	Cost (Shs)
Stocks	9,200,000
Motor vehicles	8,000,000
Land	20,000,000
Plant and machineries	12,000,000
Furniture and fittings	1,000,000
Computers	200,000
Equipments	1,750,000

Required: advise

- Beta Company on the best five Method/sources of funds that the enterprise can seek so as to finance the acquisition of the above assets. (10 Marks)
- Advantages and disadvantages any two method/source of funds sought. (10 Marks)
- Explain the factors a business should consider when sourcing for share capital. (10 Marks)

### QUESTION TWO – (20 MARKS)

Compare and contrast the characteristics of loans and equity with respect to

- Claim on assets and income (5 Marks)
- Control of the business affairs (5 Marks)

- (c) Benefits of business success (5 Marks)
- (d) Costs of access to finance. (5 Marks)

**QUESTION THREE – (20 MARKS)**

Upon graduation from Meru University Kinoti Mboroki a Diploma holder in Information Technology, started a business involving accessories sales and cyber café in Meru Town.

Required:

- (a) What preliminary investigations and estimates would a prudent business person make before starting a business? (5 Marks)
- (b) Which short-term methods of obtaining credit are likely to be most economical for Kinoti's enterprise? (5 Marks)
- (c) What factors would Mboroki take into account in deciding whether to borrow short-term or long-term funds? (10 Marks)