



**MERU UNIVERSITY COLLEGE
OF SCIENCE & TECHNOLOGY**

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University Examinations 2011/2012

STAGE III, EXAMINATION FOR DIPLOMA IN INFORMATION TECHNOLOGY

CED 0305: FINANCIAL MANAGEMENT

DATE: DECEMBER 2011

TIME: 1½ HOURS

INSTRUCTIONS: *Answer all questions*

QUESTION ONE – (15 MARKS)

- (a) Explain four factors affecting working capital. (4 Marks)
- (b) Explain three goals (objectives) of a firm. (4 Marks)
- (c) Describe the overlapping and conflicting goals of an organization. (3 Marks)
- (d) Identify and explain three main form of agency relationship in a firm. (4 Marks)

QUESTION TWO – (15 MARKS)

- (a) Outline four characteristic of sole proprietorship. (4 Marks)
- (b) Explain the following terms
 - (i) Certificate of incorporation (1 Mark)
 - (ii) Trading license (1Mark)
 - (iii) The prospectus (1 Mark)
 - (iv) Cumulative preference shares (1 Mark)
- (c) Why is limited company better as compared to other forms of business organizations? (3 Marks)
- (d) What are the limitations of credit card as a source of finance? (2 Marks)
- (e) Write short note of any four restrictive covenants that debt holders may use to protect their wealth from management and shareholders raid. (2 Marks)

QUESTION THREE – (15 MARKS)

- (a) Explain the concept of time value of money. (2Marks)
- (b) Shyam borrows Sh80,000 for a musical system at a monthly interest of 1.25%. The loan is to be repaid in 12 equal mostly repayment payable at the end of each month. Prepare a loan amortization schedule. (10 Marks)
- (c) Distinguish between ordinary annuity due and perpetuity (3 Marks)

QUESTION FOUR – (15 MARKS)

A large sized chemical company is considering investing in a project that cost Sh40,000. The estimated salvage value is zero, tax rate is 40%. The company uses straight line depreciation and proposed projects the cash-flows before tax (CFBT) as follos

YEAR	CFBT (Sh)
1	10,000
2	10,000
3	15,000
4	15,000
5	25,000

Determine the following

- (a) Payback period (5 Marks)
- (b) Net present value at 15% (5 Marks)
- (c) Internal rate of return. (5 Marks)