University Examinations 2011/2012

STAGE III EXAMINATION FOR DIPLOMA IN INFORMATION TECHNOLOGY

CED 0305: FINANCIAL MANAGEMENT

DATE: APRIL 2012   **TIME: 1½HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE – (30 MARKS)

a) The data below shows the net cash inflows for the projects A and B in which the investor wants to invest an initial capital of sh. 3, 000,000 for A and sh. 3,000,000 for B. The Net cash inflows at the rate of 10% discount rate are as follows.

Year	A	B
1	1,500,000	2,000,000
2	1,000,000	1,500,000
3	1,500,000	1,000,000
4	500,000	1,000,000
5	500,000	1,000,000

Required

   i.   Payback period for each project.   (6 Marks)
  ii.   Net present value at 10% discount rate.   (8 Marks)
 iii.   Profitability index   (4 Marks)
  iv.   Advice the management which project should be undertaken for the two projects above and why.   (2 Marks)

b) Explain any five reasons why capital budget is considered important for the firm.
                                                                               (10 Marks)

QUESTION TWO (20 MARKS)

a) Discuss any three limitation of the goal of profit maximization of a firm.
                                                                               (5 Marks)

b) Explain the following terms as used in Financial Management
    i.   Mutually Exclusive projects   (3 Marks)
    ii.   Debenture   (3 Marks)
    iii.   Par value of a share   (3 Marks)
    iv.   Dividend   (3 Marks)
    v.   Going concern value   (3 Marks)

QUESTION THREE (20 MARKS)

a) Explain any five factors that influence the working capital needs for a company.
                                                                           (10 Marks)
b) Explain the reasons why commercial banks prefer to lend short term loans to long term loans.   (10 Marks)

QUESTION FOUR (20 MARKS)

a) Outline the advantages of using the Net present value method is assessing the viability of an investment project.   (10 Marks)
b) Explain five reasons why lease finance may be appropriate source of finance for a business.   (10 Marks)

QUESTION FIVE (20 MARKS)

a) Briefly explain the main function of a finance manager to a firm.   (8 Marks)
b) Discuss the advantages of using ordinary share capital in financing.   (12 Marks)