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**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION
FOR CERTIFICATE
IN
BUSINESS MANAGEMENT**

COURSE CODE: CBF 105

COURSE TITLE: FUNDAMENTALS OF FINANCE

DATE: MONDAY, 1ST AUGUST 2022

TIME: 8-10AM

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours

▶ MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

- a) Explain the main difference between primary market and secondary market (6marks)
- b) Explain any four sources of finance (8 marks)
- c) Sharon decided to invest Sh.100, 000 in savings account paying 8% interest compounded semi- annually. If she leaves the money in the account for 2 years, how much will she have at the end of the two years? (4 marks)
- d) Andrew borrowed 600,000 from bank at interest rate of 10% per annum. The loan is to be repaid in equal installments at the end of each year for the next four years. Interest on the loan is to be paid on reducing balance basis.

Required: prepare a loan amortization schedule. (12 marks)

QUESTION TWO

- a) Citing two reasons, justify the importance of time value of money. (4 marks)
- b) Explain reasons for regulating financial market in your country (6 marks)
- c) Distinguish between internal sources of finance and external sources of finance, giving example in each case. (4 marks)
- d) Highlight factors to consider when choosing a source of finance (6 marks)

QUESTION THREE

- a) Explain four important managerial finance functions. (8 marks)
- b) West Gate, a medium sized software engineering company that is currently contemplating two projects: Project A, requires an initial investment of Sh.42, 000 and is expected to generate an annual cashflow of sh. 14,000 for five years.
Project B requires an initial investment of Sh.45, 000. The projected relevant cash flows for the project B are shown below. Required rate of return is 10%

Year	Cashflow
1	28,000
2	12,000
3	10,000
4	10,000
5	10,000

Required

- i) Net present value for each project (10 marks)
- ii) Advise the company on which project to undertake (2 marks)

QUESTION FOUR

- a) State and explain major goals of a firm business (8 marks)
- b) Highlight three functions of financial market in your country (6 marks)
- c) ABC Ltd. wishes to determine the required return on asset Z which has a beta of 1.5. The risk-free rate of return is found to be 7%; the return on the market portfolio is 11%.
Required, find the required rate of return on asset Z. (6 marks)

QUESTION FIVE

- a) Bidco Company has the following capital structure.

Source amount	
Debentures	8,000,000
Preference capital	2,000,000
Retained earnings	4,000,000
Ordinary share capital	<u>6,000,000</u>
	<u>20,000,000</u>

The component costs of capital are; k_d is 6%, k_p is 10.5%, k_r is 14%, k_s is 17.2%

Required

- Calculate the WACC. (4 marks)
- b) Jane needs to accumulate Sh. 5 million at the end of 5 years to purchase a house. she can make deposits in an account that pays 10% interest compounded annually. How much should she deposit in his account annually to accumulate this sum? (4marks)
- c) Discuss the nature of the factors which influence the dividend policy of a firm (8 marks)
- d) Determinants of Working Capital Requirements of a firm (4 marks)