MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY
KISUMU CITY CAMPUS

UNIVERSITY EXAMINATIONS
2016/2017 ACADEMIC YEAR

SECOND YEAR SECOND SEMESTER EXAMINATIONS
FOR THE CERTIFICATE
IN
BUSINESS MANAGEMENT

COURSE CODE: CBF 105

COURSE TITLE: FUNDAMENTALS OF FINANCE

DATE: FEBRUARY, 2018   **TIME: 2 HOURS**

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

1. a) Highlight the sources of government revenue (5 marks)

   b) What is the role of the central bank in the country? (5 marks)

   c) Describe the significance of Finance and its contribution to an organization's efficiency (10 marks).

2. a) Differentiate between a Financial Lease and Operating lease. (2 marks).

   b) Highlight why a shilling today is worth more than a shilling in future. (3 marks)

   c) Briefly describe the different types of markets. (5 marks)

   d) What are the responsibilities of a finance manager? (5 marks)

   e) Distinguish between annuity due and ordinary annuity and give examples of each. (2 marks)

3. Determine the equal end of the year payment necessary to amortize fully a Sh.600,000, 10% loan over 4 years. Assume payment is to be rendered (i) annually, (ii) semiannually. (20 marks)

4. While vacationing in Lamu Island Chris Musundi saw the vacation home of his dreams. It was listed with a sale price of Sh.20, 000,000. The only catch is that Chris is 40 and plans to continue working till he is 65. Chris expects property values to increase at the general rate of inflation. Chris can earn a return of 9% annually on his funds and is willing to invest a fixed amount for the 25 years to fund the cash purchase of such a house when he retires.

Required

   a) If inflation is expected to average 5% for the next 25 years what will Chris dream house cost when he retires?
   b) How much must Chris invest at the end of each of the 25 years in order to have the cash purchase price of the house when he retires?
   c) If Chris invests at the beginning instead of at the end of each of the 25 years, how much must he invest each year? (20 marks)

5. Answer the following:
   i) Why does money have time value? (2 marks)
   ii) List five different applications of time value of money. (5 marks)

   iii) If as an investor, you had a choice of daily, monthly, or quarterly compounding, which would you choose? Why? (3 marks)
   iv) Describe the procedure used to amortize a loan into a series of equal annual payments. What is a loan amortization schedule? (10 marks).