

**W1-2-60-1-6**

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

# **UNIVERSITY EXAMINATIONS 2014/2015**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBC 2202 : INTRODUCTION TO FINANCIAL MANAGEMENT**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE [COMPULSORY] AND ANY OTHER TWO QUESTIONS**

**=========================================================**

**QUESTION ONE**

1. Critically explain the roles of the Capital Market Authority (CMA) as the Chief Regulator of Financial Markets in Kenya. [10 marks]
2. Assume you bought a 10% , 25 year bond at a £842 with a promised yield to maturity of 12%. You expect the bond’s yield to maturity to decline 8% in 5years. what will be the price of the bond in 5 years it the bonds per value is £1000. [5 marks]
3. Discuss the functions of a financial manager of Kenya reinsurance [8 marks]
4. Despite the large investment if the stock exchange and the various government activities, only a few companies are listed at the stock exchange of the three African Countries. This was the opening remarks by the guest speaker in a seminar whose theme was “Developing art capital markets. Critically analyze the above statement citing the advantages of being listed at the stock exchange [7 marks]

**QUESTION TWO**

The following information relates to machines A and B.

Year Machine A Machine B

0 (100 000) (120 000)

1 60 000 50 000

2 40 000 50 000

3 20 000 50 000

Find the Internal Rate of Retunr (IRR) of the project ate rates 10% and 15%

respectively. [20 marks]

**QUESTION THREE**

1. Write short notes on the following
2. Bills of exchange
3. Debentures
4. Central depository system
5. Lease [12 marks]
6. Identify the fundamental features that distinguish preference shares from ordinary shares. [8 marks]

**QUESTION FOUR**

You are provided the following information about ABC ltd

Number of ordinary shares 100 000

National value per ordinary share 50

Market price per ordinary share 80

Net profit before corporation tax 5000 000

Rate of corporation tax 30%

Dividend rate 10%

Required:

1. Calculate:-
2. Dividends yield
3. Earning per share
4. Dividend cover
5. P/E ratio [8 marks]
6. Discuss the uses and limitations of ratios [12 marks]

**QUESTION FIVE**

1. Name and explain 3 participants in the money markets [6 marks]
2. Differentiate between activity ratios and profitability ratios [4 marks]
3. (i) Find the price of a bond with a coupon rate of 12% having 5 years to maturity. IS per value is $10 000 and the discount rate is 12% [3 marks]

(ii) Supposing interest rates rises to 14% . What will be the price of the bond. [3 marks]

(iii) Supposing interest rates fall to 8% . what will be the price of the bond. [3 marks]

(iv) What do the calculations reveal about the relationship between bond prices and interest? [1 mark]