



Riara School of Business
Nurturing business innovators

SEPTEMBER- DECEMBER TRIMESTER, 2022
DAY PROGRAMME
EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT/ INFORMATION
TECHNOLOGY/ PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

RBM 024: FUNDAMENTAL OF FINANCIAL MANAGEMENT

DATE: 1ST DECEMBER 2022

TIME: 2 HOURS

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s).
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this booklet.
11. Fasten the supplementary pages to the inside back cover of this booklet.

QUESTION ONE

- (a) Highlight **two** advantages and **two** disadvantages of net present value as a project appraisal technique **(4 Marks).**
- (b) Riara University has a store but they do not employ proper inventory policy management. You have been called upon to advise them on the economic order quantity model (EOQ) for an optimal inventory level. The demand for inventory is 900,000 units per year. It costs Shs.1, 000 to place an order, and Shs.200 to hold a unit for one year. Recommend on the following area:
- (i) Order size that would minimize inventory cost (EOQ) **(3 Marks).**
 - (ii) Number of orders placed each year **(2 Marks).**
 - (iii) Length of inventory cycle **(2 Marks).**
 - (iv) Total cost of holding inventory for one year **(4 Marks).**
- (c) Evaluate **two** sources of short term finances and **two** sources of long term finances **(8 Marks).**
- (c) Compute the present value of Shs.30,000 received one year from now, Shs.50,000 received 3 years from now and Shs. 70,000 and 90,000 received 4 years from now given the interest rate as 6% per annum **(7 Marks).**

QUESTION TWO

- (a) Compute the future value of Shs. 100,000 deposited in the bank account for three years, Shs.150, 000 deposited for two years and Shs .200, 000 deposited for one years at 14% per annum. **(3 Marks).**
- (b) Equipment A has a cost of Kshs.750, 000 and a net cash flow of Shs.200, 000 per year for six years. A substitute equipment B would cost Shs.500, 000 and generate net cash flow of Shs.140, 000 per year for six years. The required rate of return of both equipment is 11%.
- Required:**
- (i) Payback period of equipment A and B **(4 Marks).**
 - (ii) Net present value of equipment A and B **(5 Marks)**
 - (iii) Recommend the efficient equipment and why **(2 Marks).**
- (c) Highlight **four** broad functions of a finance manager **(4 Marks).**
- (d) Highlight **two** dividend policies **(2 Marks).**

QUESTION THREE

- (a) Evaluate **four** reasons why a firm many want to hold cash **(8 Marks).**
- (b) With examples differentiate between present value and future value **(4 Marks).**
- (c) Outline **three** causes of cash flow problem in a business entity **(3 Marks).**
- (d) In relations to working capital management, define the following terms;
 - (i) Credit period **(1 Mark).**
 - (ii) Credit standards **(2 Marks).**
 - (iii) Collection policy **(2 Marks).**

QUESTION FOUR

- (a) Explain **two** consequences of ineffective working capital management **(4 Marks).**
- (b) With an example define 'Time value of money' **(2 Marks).**
- (c) Outline **four** importance of capital budgeting decisions in a business organization **(4 Marks).**
- (d) XYZ Ltd wants to borrow Shs. 10,000,000 from Equity bank. The money will be repaid in equal annual installments in 6 years and will attract an interest of 14% per annum. XYZ Ltd has come to you for advice on the following:
 - (i) The annual repayment **(4 Marks).**
 - (ii) The total interest payable **(4 Marks).**
 - (iii) The total loan repayment **(2 Marks).**