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UNIVERSITY EXAMINATIONS

2012 2013 ACADEMIC YEAR

FOR THE DIPLOMA OF
BUSINESS MANAGEMENT

COURSE CODE: DIB 105 **COURSE TITLE:** FINANCIAL MANATEMENT

DATE: 19th August 2013. **TIME:** 9.00am – 12.00 noon

Instructions to Candidates

- Attempt three questions in total

SECTION A (Compulsory)

QUESTION 1

Express corporation presenting gives credit terms of 'net' 30 days ; it has & 60 million in credit sales, and its average collection period is 45 days. To stimulate demand, the company may give credit terms of 'net' 60 days' if it does instigate these terms, sales are expected to increase by 15 percent. After the change, the average collection period is expected to be 75 days with no difference in payment habits between old and new customers variable costs are $ 0.80 for every $ 1.00 of sales and the Company's before tax required rate of return on investment in receivables is 20 per cent.

Should the company extend its credit period? (Assume a 360-day-a year) - (30 marks)

(Please show your workings)

SECTION B : ATTEMPT ANY TWO QUESTIONS

QUESTION 2

Financial Management is that managerial activity concerned with planning and controlling of the firm's financial resources. Discuss by explaining in detail the functions of financial management (20 marks)

QUESTION 3

Write short notes on the following .

i. Finance Leverage (5 marks)
ii. Capital Rationing (5 marks)
iii. Credit period (5 marks)
iv. Internal Rate of Return (IRR)

QUESTION 4

A company is considering two mutually exclusive projects. Both require an initial cash outlay of $ 20,000 each and have a life of five years. The Company's required rate of return is 10 per cent and pays tax at a 50 per cent rate. The projects will be depreciated on a straight line basis. The net cash flows (before taxes) expected to be generated by the project are as follows.

Year					
	1	2	3	4	5
Project 1	$ 8000	8000	8000	8000	8000
Project 2	12,000	6000	4000	10000	10000

Required:

i. The payback of each project
ii. The average rate of return for each project
iii. The net present value and profitability index for each project
iv. The internal rate of return for each project which project should be accepted and why