

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS  
EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN  
ACTUARIAL SCIENCE**

**ACMT 402: FUNDAMENTAL PRINCIPLES OF FINANCIAL MANAGEMENT**

**STREAMS: ACMT**

**TIME:2 HOURS**

**DAY/DATE: TUESDAY 17/12/2024**

**8.30 A.M. –10.30 A.M.**

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**Question One**

- a) Calculate the future value of Kshs.10,000 invested at an annual interest rate of 5% compounded annually for 5 years. (3 marks)
- b) Describe the differences between personal income tax and corporate income tax in Kenya.State the tax rates for each. (4 marks)
- c) The capital market plays a crucial role in Kenya's financial market and economy.List five roles of a capital market .(4 marks)
- d) A company's balance sheet shows current assets of Kshs.100,000, inventory of Kshs.30,000, and current liabilities of Kshs.50,000. Calculate the quick ratio and interpret the result. (4 marks)
- e) Compare and contrast between an investment trust and unit trust. (6 marks)
- f) Discuss any three Annual financial statements .(9 marks)

**Question Two**

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- a )List three features of a budget (3 marks)
- b )Why is the Price-to-Earnings (P/E) Ratio considered important for investors, and how is it calculated? (4 marks)
- c )Suppose you are evaluating a project that requires an initial investment of Kshs.50,000 and is expected to generate cash flows of Kshs.20,000 annually for 5 years. The discount rate (r) is 10%. Calculate the NPV of the project . (4 marks)
- d )Explain the differences between a sole proprietorship, partnership, and corporation. Discuss the advantages and disadvantages of each structure from the perspective of ownership,liability and ease of formation. (9 marks)

### Question Three

- a )Define the following as used in Financial Management

Goodwill	(2 marks)
Gearing	(2 marks)
Capital Budgeting	(2 marks)

- b ) Currently the stock market has a volatility of 5% with a projected return of 13% while bonds have a volatility of 3% with a projected return of 15%. Elsie who is a risk averse friend needs to make an informed decision whether to invest in stocks or bonds. Using the provided market information, advice Elsie on which market to invest in and why? (6 marks)
- c ) Define a budget and explain its significance as a management tool. (8 marks)

### Question Four

- a ) A plc owns shares in three companies, B Ltd (40% shareholding), C Ltd (100% shareholding) and D Ltd (25% shareholding). A plc has a contractual right to appoint two thirds of the board of B Ltd. A plc has used its voting rights to appoint all of the directors of C Ltd. With reasons explain which companies are subsidiaries of A plc and which are associates? (5 marks)
- b ) List the limitations brought about by the use and interpretation of company accounts. (6 marks)
- c ) What are the three main decisions that financial managers must make? Briefly describe each. (9 marks)

### Question Five

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a ) Briefly explain what a Microfinance Institution (MFI) is and state two objectives of an MFI  
(4 marks)

b ) Taxation plays a crucial role in the economic and social development of a country. Explain four basic principles of taxation  
(8 marks)

c ) **GEN-Z Corporation Statement of Profit or Loss For the Year Ended December 31, 2023.**

**Revenues**

<b>Sales Revenue</b>	<b>Kshs.600,000</b>
<b>Total Revenues</b>	<b>Kshs.600,000</b>

**Expenses**

<b>Cost of Goods Sold(COGS)</b>	<b>Kshs.400,000</b>
<b>Selling and Administrative Expenses</b>	<b>Kshs.50,000</b>
<b>Depreciation Expenses</b>	<b>Kshs.20,000</b>
<b>Interest Expenses</b>	<b>Kshs.15,000</b>
<b>Total Expenses</b>	<b>Kshs.485,000</b>
<b>Profit Before Tax</b>	<b>Kshs.115,000</b>
<b>Income Tax Expense</b>	<b>Kshs.25,000</b>
<b>Net Profit</b>	<b>Kshs.90,000</b>

Given that GEN-Z corporation had a gross profit of Kshs.200,000 and Total Equity of Kshs.300,000

- i ) Calculate the Gross Profit Margin. (3 marks)
  - ii ) Calculate the Return on Equity (ROE). (3 marks)
  - iii ) Explain what the Gross Profit Margin computed above indicates about the corporation. (2 marks)
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