



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN BUSINESS ADMINISTRATION
DIPLOMA IN ACCOUNTANCY

BAC 2205: BUSINESS FINANCE

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages.

QUESTION 1 (Compulsory)

- a) Define the following terms as used in business finance:
- i) Returns (2 marks)
 - ii) Risk (2 marks)
- b) Two companies are listed on NSE as Kakuzi (K) and Safaricom (S) having the following probability distributions:

State of Economy	Probability	Returns of K	Returns of S
Boom	0.4	20%	3%
Steady state	0.5	10%	25%
Slump	0.1	2%	5%

Required:

- i) Compute the expected return of K and S. (5 marks)
 - ii) Find the standard deviation of K and S. (15 marks)
 - iii) Which company will be preferred and why. (2 marks)
- c) What is the difference between systematic and unsystematic risks. (4 marks)

QUESTION 2

- a) Differentiate between money market and capital market. (10 marks)
- b) What are the roles of capital markets authority. (10 marks)

QUESTION 3

- a) Find the value of sh. 100,000 compounded at 6% for three years:
- i) Annually (3 marks)
 - ii) Semi-annually (3 ½ marks)
 - iii) Quarterly (3 ½ marks)
- b) An investor is considering the purchase of a five year sh. 200,000 par value bond bearing an interest of 5%. The required rate of return is 8%.

Required:

Compute the amount that the investor will be willing to pay now to purchase the bond. (10 marks)

QUESTION 4

Identify and explain in details the functions of the Central Bank of Kenya. (20 marks)

QUESTION 5

- a) What is Agency theory and how does it arise. **(5 marks)**
- b) A project costs sh. 80,000. Its stream of earnings before depreciation, interest and tax (EBDIT) during the first year through to 5 years is expected to be sh. 20,000, sh. 24,000, sh. 28,000, sh. 32,000 and sh. 40,000. Assuming a 50% tax rate and depreciation on straight line basis

Required:

Compute the project's ROCE (ARR)

(15 marks)