TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN BUSINESS ADMINISTRATION

BUSINESS FINANCE

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

a) Highlight and briefly describe FOUR role of a financial manager in a company. **(8 marks)**

b) A project has a cost of sh. 2.4 million with an expected life of 6 years. The expected earnings before depreciation and tax (EBDT) are given as follows:

Year	Earnings (EBDT)
1	720,000
2	760,000
3	780,000
4	800,000
5	820,000
6	360,000

The company has a tax bracket of 30%, cost of capital is 10% and uses straight line method of charging depreciation.

Required:
Compute
i) ROCE/ARR **(10 marks)**
ii) NPV **(8 marks)**
iii) Profitability Index **(4 marks)**

QUESTION 2

a) Samonje and Cobsa Ltd are medium sized companies involved in the sale of residential houses. The following information was extracted from the financial statements of the two companies for the year ended December 2013.

	Samonje Ltd	Cobsa Ltd
Ordinary share capital (sh. 5 per share)	14,400,000	3,600,000
7% Preference share capital (sh. 20 per share)	350,000	10,500
Operating profit for the year	12,000,000	12,000
Market price per ordinary share	42.75	135
Retained profit for 2013	18,000,000	25,000,000

Required:
i) Gearing ratio for each company. **(2 marks)**
ii) Earnings per share for each company. **(2 marks)**
iii) Price earnings ratio for each company. **(2 marks)**
iv) Interpret the results in i, ii, and iii above. **(4 marks)**

b) What are the limitations of ratio analysis. **(10 marks)**

QUESTION 3

a) Find the present value of sh. 500,000 to be paid 6 years from now when the prevailing interest rate is 12% if the interest is compounded;
   i) Annually **(2 marks)**
   ii) Semi-annually **(3 marks)**

b) Explain **FIVE** importance of asset valuation. **(10 marks)**

c) Highlight the functions of Capital Markets Authority. **(5 marks)**

QUESTION 4

a) Identify the sources of short term finance. **(8 marks)**

b) The shares of two companies x and y have the following probability distribution.

State of economy	Probability	Return on x	Return on y
Boom	0.3	22%	3%
Steady state	0.5	10%	28%
Slump	0.2	0%	-3%

Required:
   i) Compute the expected return for each company. **(4 marks)**
   ii) Standard deviation of the returns for each company. **(8 marks)**

QUESTION 5

a) Kipevu Ltd has the following capital structure as at 31st March 2012

	Sh.
Ordinary share capital (400,000 shares)	16,000,000
10% preference shares	2,000,000
14% bond capital	14,000,000

Additional information;

i) The market price of each ordinary share as at 31st March 2012 was sh. 40

ii) The firm paid dividends of sh. 4 for each ordinary share at 31st March 2012.

iii) The annual growth rate in dividends is 7%

iv) The corporation tax rate is 30%

Required:
Weighted Average Cost of Capital (WACC). **(12 marks)**

b) Highlight the factors that influence dividend policy. **(8 marks)**