



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

HIGHER DIPLOMA IN HUMAN RESOURCE MANAGEMENT

BFI 3101: 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 Five printed pages.

QUESTION 1 (Compulsory)

HLT Ltd has approached you for advice on equipment to be purchased for use in a 5 year project. The investment will involve initial capital of sh. 1.4m and the expected cash flows are provided below:

Year	Cash flow	Cash outflow
	Sh.	Sh.
1	800,000	65,000
2	750,000	80,000
3	900,000	50,000
4	1,200,000	55,000
5	1,100,000	70,000

The equipment is to be depreciated on a straightline basis over the duration of the project with a null residual value. The cost of capital and tax rate are 12% and 30% respectively.

Required:

- a) Determine the present value of the project. **(15 marks)**
- b) Compute the profitability index of the project. **(3 marks)**
- c) Advise HLT Ltd. **(2 marks)**

QUESTION 2

- a) Highlight various measures that would minimize agency problems between:
 - i) Owners of the business and management. **(5 marks)**
 - ii) Owners of the business and creditors. **(5 marks)**
- b) Identify the roles of financial manager in organization both in public and private sectors. **(10 marks)**

QUESTION 3

- a) i) Define cost of capital from the perspective of major components of capital structure of limited companies. **(3 marks)**
 - ii) Briefly identify the elements contained in cost of capital. **(3 marks)**
- b) Mombasa Transporters Ltd have had a very good trading period and they would like to extend their business to make use of the favourable trading conditions. They have planned to raise the additional finance from various trading sources as follows:
 - To issue 150,000 ordinary shares (sh. 10 nominal value) at sh. 15 each)
 - To issue 200,000 13% preference shares (sh. 10 nominal value) at sh. 12 each.
 - To issue 200,000 15% debenture at sh. 100 at 90 each.

- Finally, they plan to raise a medium term loan of sh. 5 million from a non-banking financial institution which will be at an interest rate of 20% of 20% p.a.

Required:

- i) Compute total amount that the company will raise
- ii) Average cost of the additional finance.

NB:

- i) Assume corporate tax of 50%.
 - ii) The ordinary shareholders are paid a dividend of 10%. **(14 marks)**
- (Show workings).

QUESTION 4

- a) Identify and clearly distinguish between the **TWO** classes of financial markets. **(10 marks)**
- b) What are the benefits derived from CDs to government, to the capital market authority and the investors. **(10 marks)**

QUESTION 5

- a) The shares of JAMSA Ltd Expo Ltd have the following probability distribution:

State of economy	Probability	Return of J	Return of E
Boom	0.3	22%	3%
Steady growth	0.5	10%	28%
Slump	0.2	0%	-3%

Required:

- i) Compute the expected return. **(5 marks)**
 - ii) The variance of the two companies. **(10 marks)**
- b) Identify and briefly explain the factors that influence dividend policy. **(5 marks)**