

TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS ADMINISTRATION
DEPARTMENT OF ACCOUNTING AND FINANCE

DIPLOMA IN BUSINESS ADMINISTRATION
DIPLOMA IN ACCOUNTANCY

BAC 2205: BUSINESS FINANCE

END OF SEMESTER EXAMINATIONS

SERIES: APRIL SERIES

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

- This paper consists of **FIVE** Questions.
- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do **NOT** Write on the question paper.
- You are only allowed to have writing materials, an Answer booklet and a scientific non programmable calculator in the examination room.
- Mobile phones are not allowed in the examination room.
- Cheating leads to disqualification.
- This paper consists of Three printed pages*

QUESTION ONE (COMPULSORY)

- a. Outline the role of Capital Markets Authority in Kenya **(10 marks)**
- b. The following information relates to the forecast returns of securities A and B and their probabilities during the year ended 30th December 2015.

Probability	Returns on Security A (%)	Returns on Security B (%)
0.2	10	8
0.1	12	10
0.35	8	7
0.05	15	12
0.15	14	11
0.15	9	8

Required:

- i. Expected return on Securities A and B **(4 marks)**
- ii. Standard deviation of the returns of Securities A and B **(16 marks)**

QUESTION TWO

- a. Distinguish between Primary and Secondary securities markets **(4 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) in Shillings
1	720,000
2	760,000
3	880,000
4	820,000
5	820,000
6	860,000

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

Required:

- a. NPV (6 marks)
- b. ROCE/ARR (8 marks)
- c. Profitability Index (2 marks)

QUESTION THREE

- a) Highlight FIVE steps in Capital Budgeting (5 marks)

- b) Find the present value of Sh. 75,000 to be paid 4 years from now when the prevailing interest rate is 10% compounded:
 - i. Annually (5 marks)
 - ii. Semiannually (5 marks)

QUESTION FOUR

- a. Elaborate the role of Central Bank of Kenya (10 marks)

- b. Projects A, B, and C have initial capital outlays of Sh. 36,000 each. The cash flows for each project is as indicated below:

Project	Year 1	Year 2	Year 3
A	18,000	12,000	4,000
B	20,000	0	0
C	24,000	12,000	2000

Required:

- i. Compute the payback period for each project (8 marks)
- ii. Assuming the maximum payback period is 2 years, which project should be selected and why? (2 marks)

QUESTION FIVE

- a. Highlight the role of Nairobi Securities Exchange in Kenya (10 marks)

- b. Identify the emerging trends in Business Financing in the Country (10 marks)