



TECHNICAL UNIVERSITY OF MOMBASA
School of Business

DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BFI 4203: BUSINESS FINANCE

END OF SEMESTER EXAMINATIONS

SERIES: MAY 2016

TIME: 2 HOURS

Instructions to Candidates

You should have the following for this examination

- *Answer Booklet*
- *Examination Pass*
- *Student ID*

This paper consists of five questions.

Attempt question ONE (Compulsory) and any other TWO questions

This paper consists of **THREE** printed pages

Do NOT write on the question paper

Mobile phones are NOT allowed in the examination room

QUESTION 1 (Compulsory)

- a) Discuss the functions of a finance manager. **(10 marks)**
- b) Explain the limitations of accounting ratios. **(8 marks)**
- c) The following data was extracted from the records of Mbele Ltd.

Capital employed	Sh. 1,000,000
Net profit before tax	Sh. 200,000
Corporation tax	30%
Dividend per share	Sh. 5
Market price per share	Sh. 40
Turn over	Sh. 800,000
Inventory	Sh. 80,000

Cost of sales	Sh. 160,000
Debtors	Sh. 400,000
Creditors	Sh. 200,000
Bank loan	Sh. 100,000

Additional information:

- i) Return on capital employed 15%
- ii) Rate of stock turnover 2 times.
- iii) Dividend yield 8%
- iv) Current ratio 2:1

Required:

Compute the above ratios, compare with industry ratios and comment (12 marks)

QUESTION 2

- a) Discuss any **FIVE** sources of business finance. (10 marks)
- b) The following cash flows were projected by Lango la Papa Ltd.

Year	Cash flows (shs.)
1	100,000
2	140,000
3	100,000
4	60,000
5	200,000
6	120,000

Discounting rate is 10%

Required:

Compute the present value of the cash flows. (10 marks)

QUESTION 3

Explain the reasons why a number of qualifying companies are not quoted at Nairobi Stock Exchange. (20 marks)

QUESTION 4

Pwani investment Company Ltd has a good trading period and wants to raise further finance from the following sources.

- i) To issue 100,000 ordinary shares of sh. 10 at shs. 15 each.
- ii) To issue 100,000 10% preference shares of shs. 10 at shs. 12 each.

- iii) To issue 100,000 15% debentures of shs. 100 at shs. 90 each.
- iv) To raise a medium-term loan of sh.5 million from a financial institution which will be at an interest rate of 20% p.a.

This company will pay an annual dividend to ordinary shares of 14% and a corporation tax of 50%.

Required:

- a) The total amount that this company will raise if this plan is realized.
- b) The company's weighted marginal cost of capital. **(20 marks)**

QUESTION 5

Describe briefly **THREE** major sources of company finance and discuss the main advantages and disadvantages of each source. **(20 marks)**