



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business & Social Studies***

DEPARTMENT OF BUSINESS STUDIES

HIGHER DIPLOMA IN HUMAN RESOURCE MANAGEMENT

**BFI 3101 : BUSINESS FINANCE**

END OF SEMESTER EXAMINATIONS

**SERIES:** DECEMBER 2013

**TIME:** 2 HOURS

**INSTRUCTIONS:**

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Marks will be awarded for clearly shown workings.

***This paper consists of Four printed pages.***

## QUESTION 1 (Compulsory)

a) The following is an extract of the balance sheet of BNF 3101 Ltd for as at 31<sup>st</sup> Dec 2011.

Capital & liabilities	Sh.000
Ord. shares of 10/=	10,000
Retained earnings	20,000
10% Debentures	50,000
	80,000

Additional information:

- i) Profit before interest & tax for the year ended 31-12-2011 was sh. 9,000,000
- ii) The dividend payment ratio for the year 2011 was 40%
- iii) The market price per share as at 31-12-2012 was 30/=
- iv) The corporate tax rte was 40%

Required:

- i) Gearing ratio (3marks)
- ii) Dividends field (3marks)
- iii) Interest cover (3marks)
- iv) Return on capital employed (3marks)
- v) Price earning ratio (3marks)

b) Ratio analysis is a powerful & tool for analyzing financial statements. Briefly highlight the Weaknesses of relying on Ratio analysis. (10marks)

c) Briefly distinguish Debt capital from equity capital. (5marks)

## QUESTION 2

- a) Define the term Dividend policy. (2marks)
- b) Briefly explain any 5 dividend policies. (10marks)
- c) Briefly distinguish between primary market and secondary market justifying their existence. (8marks)

### QUESTION 3

a) Define the concept of time value of money and justify its use. (6marks)

b) Muli Ltd is currently considering two mutually exclusion projects x & y. Project x has a life span of 7 years while y has 5 years the each of the project costs 8, million shillings and are expected to field the follow of csh flows

Net Cash Inflow	Sh.000	Sh.000
Year 1	2,000	4,000
2	2,200	3,000
3	3,000	5,000
4	2,240	6,000
5	2,760	1,500
6	3,200	-
7	3,000	-

The initial capital is to be raised by sale of ordinary shares which are currently selling at 50/= the company expects to pay dividends per share at sh.6.50. The future earnings are expected to grow by 7% regardless of the project implemented.

#### Required:

- i) The cost of equity of the firm. (2marks)
- ii) The Net value of each project. (6marks)
- iii) Internal rate of Return for each project. (6marks)

### QUESTION 4

a) Retained earning has been described as the most convenient source of capital support this ascertain (10 marks)

b) The shareholders equity of LINUS LTD included the followings:

Equity structure	Sh. In millions.
Ordinary shares	100
Premium on ordinary shares	80
8% preference share	200
Premium on p. shares	500

The board of directors declared cash dividends for the 1<sup>st</sup> three years

#### Required:

The amount of dividends paid to both preference and evading shares in each year (10marks)

## **QUESTION 5**

- a) Briefly explain why leases may be preferred to outright purchase. (10marks)
- b) Briefly described the factors to consider when deciding on the source of capital to use. (10marks)