

**TECHNICAL UNIVERSITY OF MOMBASA**

*School of Business*

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**HIGHER DIPLOMA IN HUMAN RESOURCE MANAGEMENT**

**BFI 3101: BUSINESS FINANCE**

**SERIES: APRIL 2016**

**TIME: 2 HOURS**

**INSTRUCTIONS**

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

1 a) Homa bay investment company ltd had a good trading period and wants;

To issue 100,000 ordinary shares of sh. 10 each at sh. 15

To issue 100,000 10% preference shares of sh. 10 at sh. 12 each

To issue 100,000 15% debentures of sh. 100 at sh. 90 each.

To raise a medium term loan of sh. 500,000 from a financial institution. This company will pay an annual dividend of ordinary shares of 14% under corporation tax of 30%

Required:

- i) The total amount which will be raised by this company. (5 marks)
  - ii) The average cost of additional finance. (7 marks)
- b) Discuss the roles of central bank of Kenya. (10 marks)
- c) The sources of finance can be categorized into two major sources, that's internal and external. Explain any 4 examples of internal and 4 external sources of finance. (8 marks)

## SECTION B

### QUESTION TWO

a) A company has got two projects which has the following information.

	PROJECT A	PROJECT B
Year	shs.	Shs.
0	(10,000,000)	(20,000,000)
1	5,000,000	6,000,000
2	4,000,000	8,000,000
3	3,000,000	10,000,000

Determine the most viable project using IRR. (14 marks)

b) Highlight general limitations of debt financing. (6 marks)

### QUESTION THREE

a) Explain the any five financial ratios giving their uses and formulas. (15 marks)

b) Highlight five features of ordinary share capital. (5 marks)

### QUESTION FOUR

a) A company is an entity which invests its resources so as to have returns. Explain general goals of business. (15 marks)

b) Company xyz sold irredeemable preference shares in 2014 at sh.50 each. The appropriate rate of discount as of then was 8%. The company is currently paying an annual dividend of sh.4 per share and this type of share has current yield rate / discount rate of 6%. Calculate the current value of this share. (5marks)

### QUESTION FIVE

a) Discuss emerging trends and issues in business finance. 10 marks)

b) Define a cash flow statement and explain how it helps the management. (10 marks)