

**TECHNICAL UNIVERSITY OF MOMBASA**  
*SCHOOL OF BUSINESS*  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**BACHELOR OF COMMERCE**  
**BACHELOR OF BUSINESS ADMINISTRATION**

**BFI 4203: BUSINESS FINANCE**

**END OF SEMESTER EXAMINATIONS**

**SERIES: APRIL/MAY 2016**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- This paper consists of Sections **A** and **B**.
- Section **A** is Compulsory. Answer any **TWO** questions in Section **B**.
- Mobile phones are not allowed into examination room.
- Cheating leads to disqualification.
- This paper consists of Four printed pages.*

### Question One

- a) Every business has certain goals that it would like to achieve. Explain the various goals of a business (10 mks)
- b) In the goals mentioned above, explain any THREE overlapping objectives. (6mks)
- c) In carrying out its objectives, the organization may face conflicting objectives. Explain any THREE objectives that may be in conflict. (6 mks)
- d) The following information was extracted from ABC ltd. The company has been paying a dividend of 10% on its shares. The par value of the shares is @ sh. 30, but a share is currently selling at sh. 60 in the stock exchange. The company intends to issue more shares and expects to raise its current dividend rate by 2%. Compute the ex-div price of this company's shares. (8 mks)

### Question Two

- a) Company ABC ltd has ksh. 1,000,000 and wants to invest in any of the two available projects. The projects A or B are expected to generate the following cashflows:

Period	Project A	Project B
	shs.	Shs
1	300,000	600,000
2	100,000	500,000
3	400,000	400,000
4	500,000	300,000
5	600,000	100,000

Required:

- i) Advise the company on which project to invest in using Pay-back period method (6mks)
- ii) Advise the company on which project to invest in using Net Present Value method, assuming that the rate of interest is 10% per annum (8 mks)
- b) Outline **three dis-advantages** of using the payback period method (3 mks)
- c) Outline **three dis-advantages** of using the NPV method (3 mks)

### Question Three

a) ABC Ltd has the following capital structure

	Shs
Ordinary share capital	300,000
Retained earnings	150,000
8% Preference share capital	100,000
10% debt finance	<u>50,000</u>
Total capital employed	<u>600,000</u>

This company has been paying ordinary dividend of 10% per annum and expected equity grows at 6% per annum. Tax is at the rate of 50%

Required: Calculate:

- i) Cost of equity (4 mks)
  - ii) Cost of preference shares (3 mks)
  - iii) Cost of debt (4 mks)
  - iv) Weighted average cost of capital (4 mks)
- b) Explain any **five factors** that affect the cost of finance (5 mks)

### Question Four

XYZ LTD

Balancesheet

As at 31 Dec 2013

	Shs	Shs	Shs
Fixed assets			213,900
<u>Current Assets</u>			
Stock		150,000	
Debtors		35,900	

Others		<u>20,000</u>	
			205,900
<u>Current Liabilities</u>			
Creditors	60,000		
Provision for corporation tax	63,500		
Proposed Dividend	<u>14,800</u>	<u>138,300</u>	<u>67,600</u>
			<u>281,500</u>
<u>Financed by</u>			
Ordinary Share capital		100,000	
8% Preference Share capital		<u>60,000</u>	160,000
<u>Revenue Reserve</u>			
P&L Account 31.12.2012		32,800	
P&L Account 31.12.2013		<u>48,700</u>	81,500
10% Loan Finance			<u>40,000</u>
			<u>281,500</u>

Required, compute the following ratios:

- |      |                            |         |
|------|----------------------------|---------|
| i)   | Current Ratio              | (3 mks) |
| ii)  | Quick Ratio                | (3 mks) |
| iii) | Gross Profit Margin        | (3 mks) |
| iv)  | Net Profit Margin          | (3 mks) |
| v)   | Return on Capital Employed | (5 mks) |
| vi)  | Earnings per Share         | (3 mks) |

### Question Five

- |    |  |          |
|----|--|----------|
| a) | Explain FIVE between money markets and capital markets | (10 mks) |
| b) | Explain FIVE forms of debt finance                     | (10 mks) |

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