

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

QUESTION ONE

- a) Explain circumstances under which partnership business can be terminated. (12 marks)
- b) Calculate the NPV of project X which initially costs Shs. 250,000 and will generate the following cash inflows.

Years	Cash Flows
1	90,000
2	80,000
3	70,000
4	60,000
5	50,000

The required rate of return is assumed to be 10%. (8 marks)

c) ABC Company Ltd books:	Shs.
10,000 Sh. 20 ordinary share capital	200,000
10,000 Sh. 10 8% preference share capital	100,000
5,000 sh. 100 12% debentures	500,000

The above debentures are due for conversion:

Required

- i. Compute the conversion price (3 marks)
- ii. Compute the conversion ratio (3 marks)
- iii. Compute new capital structure. (4 marks)

SECTION B

QUESTION TWO

a) Company XYZ contemplates to raise debt finance totaling Shs. 1,000,000. It will be required to pay an annual interest of 10%. This money can be invested in one of the following projects, A or B , which will generate the following cash inflows

Period	A	B
	Sh	Sh
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:

Using pay back period (PBP) method, which of the two projects should the company invest in and explain two advantages and disadvantages of this method(10 marks)

- b) Explain the following financial ratios giving their uses and formulas. (10 marks)
- Liquidity ratio
 - Asset turn over ratio
 - Financial leverage ratio
 - Profitability ratio
 - Divided policy ratio

QUESTION THREE

a) 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. (10 marks)

b) Financial managers are expected to carry out many functions.

State and explain five financial functions such managers are involved in. (10 marks)

QUESTION FOUR

a) A finance manager with present investment policies will be concerned with how efficiently the company's funds are invested. Explain 4 importance of investment decision. (8 marks)

b) Explain 6 factors that influence cost of capital. (12 marks)

QUESTION FIVE

a) Explain 5 benefits of ordinary shares as capital of finance(10 marks)

b) Explain limitations of using monetary tools to control credit by the central bank of Kenya. (10 marks)