



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

HIGHER DIPLOMA HUMAN RESOURCE MANAGEMENT

BFI 3101: BUSINESS FINANCE

END OF SEMESTER EXAMINATION

SERIES: Select series 2017

TIME: 2 HOURS

DATE: Pick Date Sep 2017

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

a) Biashara Ltd. has the following capital structure:

	'000
Long term debt	3,600
Ordinary share capital	6,500
Retained earnings	4,000

The finance manager of Biashara Ltd. has a proposal for a project requiring Sh.45 million. He has proposed the following method of raising the funds:

- Utilise all the existing retained earnings
- Issue ordinary shares at the current market price.
- Issue 100,000 10% preference shares at the current market price of Sh.100 per share which is the same as the par value.
- Issue 10% debentures at the current market price of Sh.1,000 per debenture.

Additional information;-

1. Currently, Biashara Ltd. pays a dividend of Sh.5 per share which is expected to grow at the rate of 6% due to increased returns from the intended project. Biashara Ltd.'s price/earnings (P/E) ratio and earnings per share (EPS) are 5 and Sh.8 respectively.
2. The ordinary shares would be issued at a floatation cost of 10% based in the market price.
3. The debenture par value is Sh.1, 000 per debenture.
4. The corporate tax rate is 30%.

Required:

- Biashara Ltd.'s weighted average cost of capital (WACC). (10 marks)
- b) Explain the roles of financial manager. (10 marks)
 - c) Define business finance and discuss the scope of the business finance as a subject. (10 marks)

Question TWO

- a) Explain the meaning of the term "cost of capital" and explain why a company should calculate its cost of capital with care. (10 marks)
- b) Define sole proprietorship. Discuss the advantages and disadvantages of sole proprietorship. (10 marks)

Question THREE

- a) Suppose you are offered an opportunity to invest Sh.100, 000 today with an assurance of receiving exactly Sh.300, 000 in eight years. Find the interest rate. (4 marks)
- b) Define a dividend. Explain the main dividend theories. (16 marks)

Question FOUR

- a) The following information was extracted from Wanje Traders for the period 2007 and 2008

	2007	2008
	Sh.	Sh.
Stock-Raw Materials	20,000	27,000
Work in Progress	14,000	18,000
Finished goods	16,000	24,000
Purchases	96,000	130,000
Cost of goods sold	140,000	180,000
Sales	160,000	200,000
Debtors	32,000	48,000
Creditors	16,000	19,500

Required:

Compute the Average Operating Cycle

(10 marks)

b) Explain **FIVE** roles of Central Bank of Kenya in the Kenyan Economy.

(10 marks)

Question FIVE

- a) In making investment decisions, cash flows are considered to be more important than accounting profits. Briefly explain why this is the case. (4 marks)
- b) Magma Ltd. wishes to make a choice between two mutually exclusive projects. Each of these projects requires Sh.400, 000,000 in initial cash outlay. The details of the two projects are as follows:

Project A

This project is made up of two subprojects.

The first subproject will require an initial outlay of Sh.100, 000,000 and will generate Sh.25, 600,000 per annum in perpetuity. The second sub project will require an initial outlay of Sh.300, 000,000 and will generate Sh.85, 200,000 per annum for the 8 years of its useful life. This sub project does not have a residual value at the end of the 8 years. Both sub projects are to commence immediately.

Project B

This project will generate Sh.87, 000,000 per annum in perpetuity.
The company has a cost of capital of 16%.

Required:

- i) Determine the net present value (NPV) of each project.
ii) Compute the internal rate of return (IRR) for each project.
iii) Advise Magma Ltd. on which project to invest in, and justify your choice.

(16 marks)