



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DEGREE IN BACHELOR OF COMMERCE

BFI 4203 BUSINESS FINANCE

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2HOURS

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. Discuss any five objectives of a business entity (10 Marks)
- b. A company is considering the following projects:

PROJECTS	Cash flows (Ksh)			
	Year 0	Year 1	Year 2	Year 3
A	(10,000)	10,000	-	-
B	(10,000)	75,500	7,500	-
C	(10,000)	2,000	4000	12,000
D	(10,000)	10,000	10,000	3,000

Required:

Rank the projects according to each of the following methods:

- i. PBP (5 Marks)
- ii. ARR (5 Marks)
- iii. IRR (5 Marks)
- iv. NPV (5 Marks)

QUESTION TWO

- a. Explain any four types of risks a finance manager should be acquainted with.(4 Marks)
- b. A company has made plans for the year 2017. It is estimated that the company will employ total assets of ksh 800,000; 50% of the assets being financed by borrowed capital at an interest rate of 8% per year. The direct costs for the year are estimated at Ksh. 480,000 and all other operating expenses are estimated at Ksh. 80,000. The goods will be sold to customers at 150% of the direct costs. Tax rate is assumed to be 50%.

Required:

Calculate:

- Net profit margin (4 Marks)
- Return on assets (4 Marks)
- Assets turnover (4 Marks)
- Return on owner's Equity. (4 Marks)

QUESTION THREE

- a. Distinguish between money market and capital market. (5 Marks)
- b. Bamburi limited has the following capital structure on 30th June 2008:

Ordinary shares (200,000 shares)	Ksh. 4,000,000
10% Preference shares	1,000,000
14% Debentures	3,000,000

The share of the company sells for Ksh. 20. It is expected that the company will pay next year a dividend of Ksh 2 per share which will grow at 7 % forever. Tax rate is 50%.

Required:

- i. Compute the weighted average cost of capital based on the existing capital structure.
- ii. Compute the new weighted average cost of capital if the company raises an additional Ksh. 2,000,000 by issuing 15% debentures. Consequently, price per share will decline to Ksh 15 and a dividend per share increase to ksh.3 and leave the growth rate unchanged, but the price of the share will fall to Ksh. 15 per share. You are required to compute the cost of capital if the growth rate increases to 10%.

QUESTION FOUR

- a. Explain the steps involved in the financial planning process. (5 Marks)
- b. The following details were obtained from the books of Kaburu ltd:

2015	Sales Ksh	Purchases Ksh	Wages Ksh	Expenses Ksh
January (Actual)	80,000	45,000	20,000	5,000
February (Actual)	80,000	40,000	18,000	6,000
March (Actual)	75,000	42,000	22,000	6,000
April (Budgeted)	90,000	50,000	24,000	7,000
May (Budgeted)	85,000	45,000	20,000	6,000
June (Budgeted)	80,000	35,000	18,000	5,000

You are further informed that:

- i. 10% of purchases and 20% of sales are for cash.
- ii. The average collection of the company is ½ month and the credit purchases are paid off regularly after one month.
- iii. Wages are paid half monthly and the rent of Ksh. 500 included in expenses is paid monthly.
- iv. Cash and bank balances as on April 1st was Ksh. 15,000 and the company wants to keep it at the end of every month below Ksh. 15,000 (but not less than Ksh. 14,000), the excess cash being put in fixed deposit account in multiples of Ksh. 1,000.

Required:

A cash budget for the three months ended 30th June 2015 (15 marks)

QUESTION FIVE

- a. Discuss any five external sources of business finance. (10 Marks).
- b. Discuss any five functions of the central bank of Kenya. (10 Marks)

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