



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

- Explain the limitations of using accounting ratios as a tool for gauging financial performance of an entity.. (10 Marks)
- The following information was extracted from the books of Malindi limited:

Sales - Cash	Ksh.	Ksh.
Credit		300,000
		<u>600,000</u>
		900,000
Less cost of sales:		
Opening	210,000	
Purchases	<u>660,000</u>	
	870,000	
Less closing stock	<u>150,000</u>	
		<u>720,000</u>

Gross profit		180,000
Less operating Expenses:		
Depreciation	13,100	
Director's emoluments	15,000	
General expenses	20,900	
Interest on loan	<u>4,000</u>	<u>53,000</u>
Net profit before tax		127,000
Less corporation tax		<u>63,500</u>
Net profit after tax		63,500
Less appropriations		
Preference dividend	4,800	
Ordinary dividend	<u>10,000</u>	<u>14,800</u>
Retained profits		<u>48,700</u>

MALINDI LTD
BALANCE SHEET AS AT 31ST 2015

	Ksh.	Ksh.
Fixed Assets		213,900
Current Assets		
Stock	150,000	
Debtors	35,000	
Others	<u>14,800</u>	
	<u>205,900</u>	
<u>Current liabilities</u>		
Creditors	60,000	
Provision of tax	63,500	
Proposed dividends	<u>14,800</u>	
	<u>138,300</u>	
Working capital		<u>67,600</u>
		<u>281,500</u>
Financed By:		
Ordinary share capital @Ksh. 10	100,000	
8% Preference share capital	<u>60,000</u>	160,000
Revenue Reserve		
Profit b/f	32,800	
Profit for the year	<u>48,700</u>	81,500
10% Loan Finance		<u>40,000</u>
		<u>281,500</u>

Additional information:

1. The company's shares of Ksh. 10 currently sell at Ksh. 20 in the stock exchange.
2. The company pays a dividend of 10% p.a. which is likely to be maintained in the foreseeable future .
3. Corporation tax is 50%.

Required:

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Compute the following ratios:

- i. Current ratio
- ii. quick ratio
- iii. Gross profit margin
- iv. Operating ratio
- v. Return on capital employed
- vi. Earnings per share
- vii. Fixed assets ratio
- viii. Inventory turnover
- ix. Creditor turnover
- x. Capital employed turnover. (20 marks)

QUESTION TWO

- a. Explain any five roles of a commercial bank. (5Marks)
- b. Kwale titanium company limited has had a good trading period and the management wants to raise further finance from the following sources:
100,000 ordinary shares of Ksh 10 at Ksh 15 each.
100,000 10% preference shares of Ksh 10 each at Ksh 12 each.
100,000 15% debentures of Ksh. 100 at Ksh. 90 each.
To raise medium term loan of Ksh. 5,000,000 from a financial institution which will be at an interest rate of 20% p.a.
The company will pay an annual dividend to ordinary shares of 14% and a corporation.

Required:

- i. Calculate the amount of money to be raised from the above arrangements. (5 Marks)
- ii. Calculate the average cost of additional finance. (10 marks)

QUESTION THREE

- a. Explain the functions of Nairobi securities exchange market (5 Marks)
- b. Rabai Ltd company contemplates to raise finance totalling ksh.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 and B, which will generate the following cash inflows:

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

Required:

- i. Using the Net Present Value method advise the management accordingly as to which one of the two projects would be viable and why. **(10 marks)**
- ii. Using payback period method, which of the two projects should the company invest in? **(5 marks)**

QUESTION FOUR

- a. A successful and sound cash budgeting process is based upon certain prerequisites. Discuss. **(10 Marks)**
- b. Discuss any five internal sources of finance. **(10 Marks)**

QUESTION FIVE

- a. Discuss four categories of financial controls in a business entity **(10 Marks)**.
- a. Discuss the merits and demerits of short term financing. **(10 Marks)**