



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
DACC/DBM

BAC2205: BUSINESS FINANCE

END OF SEMESTER EXAMINATION

SERIES: August 2019

TIME: 2HOURS

DATE: 16Aug2019

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) What is meant by the “cost of capital” What is the significance of cost of capital in Business Finance?
(6Marks)
- b) Differentiate a financial lease from an operating lease.
(5Marks)
- c) Imperial Bank was recently hit the Newspaper headlines as having been put under receivership.
- Critically discuss the expected consequences of this failure and its publicity to the other local financial institutions in Kenya.
(5Marks)
 - What steps would you advise the government to take in order to prevent massive failures of financial institutions in Kenya today?
(5Marks)
- d) Company XYZ , a geared company has financed its activities as follows:
- Ordinary shares-100,000 shares @ Shs. 10
40,000 8% debentures (par value Shs. 10/-)
50, 000 10% preference shares of Shs. 10.
- Also the following information is provided:

Ordinary shares are currently quoted at Shs. 25 and a dividend of Shs. 2 per share is expected by shareholders. These dividend have been growing at 3% p.a

Preference shares currently sell at Shs 15. Tax =40%

Required

Compute the weighted average cost of capital using the methods (i.e. Weighted approach and Percentage approach) **(10Marks)**

QUESTION Two

- a) Distinguish between long-term, medium –term, and short-term finance and give two (2) examples of each type of financing. **(10Marks)**
- b) Explain the possible results/impact when the financial institutions fail to perform in the financial markets. **(10Marks)**

QUESTION Three

- a) Discuss the salient features of sole proprietorship? **(5Marks)**
- b) Describe briefly **THREE** major sources of company finance. **(5 Marks)**
- c) Explain the main advantages and disadvantages of each source discussed above. **(5Marks)**

QUESTION Four

- a) Tononoka Manufacturing Company

	2016	2017	2018
Days of Sales outstanding			
Debtors turnover (times)	9.2	8.3	7.7
Average collection period (days)	39	43	47
Debtors/sales ratio (per cent)	10.9	12.1	13.0

From the above given table, you are required to give a brief interpretation on ratios of Tononoka Manufacturing Company. **(10Marks)**

- b) Discuss the users of ratios and their limitations. **(10Marks)**

QUESTION Five

a) Examine critically the role played by commercial banks in the economic development of Kenya to date.

(10Marks)

b) The following is the Capital Structure of a firm:-

Source	Amount \$	Proportion %
Ordinary share capital (\$)	300,000	50%
Retained Earnings	150,000	25%
Preference share capital	100,000	16.67%
10% Debentures	<u>50,000</u>	<u>8.33%</u>
	<u>600,000</u>	<u>100%</u>

Corporation tax 50%

The cost of various sources of capital are:-

Source	Cost
Ordinary share capital	15%
Retained earnings	15%
Preference share capital	10%
Debentures (10% less tax element)	

Required

Calculate the Weighted Average Cost of Capital.

(10Marks)



Technical University of Mombasa,
Tom Mboya Avenue P. O. Box 90420 - 80100, MOMBASA - KENYA.
TEL: (254) 41-2492222/3, FAX: (254) 41- 2495632, Mobile: (254) 0724-955377 | 0733 -955377
E-mail : info@tum.ac.ke, vc@tum.ac.ke, Website: www.tum.ac.ke