



TECHNICAL UNIVERSITY OF MOMBASA

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

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) Why is a “Limited Company” better as compared to other forms of business organizations? (10Marks)
- b) The Capital structure of two companies A Ltd and B Ltd, is given below.

	A.Ltd	B.Ltd
	£	£
Ordinary share capital (£ 1 each share)	100,000	25,000
Reserves	<u>150,000</u>	<u>25,000</u>
	250,000	50,000
10% Debenture	<u>-</u>	<u>200,000</u>
	<u>250,000</u>	<u>250,000</u>

Required;

- a) Calculate the gearing of both companies and established the one that is highly geared. (5Marks)
- b) Work out the earning per share for profits before tax and interest £20,000; £ 40,000 (5Marks)

c) Explain the following terms:

- i. Certificate of Incorporation (4Marks)
- ii. The prospectus (4Marks)
- iii. Trading Licenses. (2Marks)

QUESTION TWO

a) Discuss briefly the following sources of a business finance showing clearly the advantages and disadvantages of each source:

- i. Trade creditors (4 Marks)
- ii. Preference shares (4Marks)
- iii. Retained earnings (4Marks)
- iv. Bank Loan (4Marks)

QUESTION THREE

Mabati Ltd. Can invest in one of the following two projects A and B which require an initial cash outlay of Shs. 1,000,000 and will pay an interest rate of 10% on this money. These projects will generate the following cash inflows:

<u>Year</u>	<u>Project A</u> Shs	<u>Project B</u> Shs
1	500,000	600,000
2	40,000	160,000
3	100,000	40,000
4	600,000	500,000
5	160,000	100,000

a) You are required to apply the methods given below to advise the management which one of the two project they should invest in. (10 Marks)

- 1) PBP Method
- 2) NPV Method
- 3) PI Method

b) Define the term Capital Rationing. (3 Marks)

c) Discuss factors that normally lead to Capital Rationing. (7 Marks)

QUESTION FOUR

Tablers Ltd had the following capital structure:

	\$
Ordinary share capital	200,000
Reserves	160,000
11.5 % preference shares	100,000
10% Debentures	<u>50,000</u>
Capital	<u>510,000</u>

Ordinary shares of a the company are used to expecting at least 20% dividends which are normally covered by 2 times after tax profits , and the balance of the profits is transferred to reserves.

Calculate:

- a) The rate of growth of the equity **(10Marks)**
- b) The weighted average cost of capital **(10Marks)**

QUESTION FIVE

- a) Discuss the main functions of commercial banks in Kenya. **(10 Marks)**
- b) Outline the main causes of bank failure and the implication of failure in the economy of a Country. **(10Marks)**