TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BCOM/BBA/BBOM/BBIT

BFI 4203: BUSINESS FINANCE

MAIN EXAMINATIONS
SERIES: APRIL 2020
TIME: 2 HOURS

INSTRUCTIONS:
Answer Question **ONE (Compulsory)** and any other **TWO** questions
This paper consists of Four printed pages

QUESTION 1 (Compulsory)

Tuskys Imara to go under the hammer over an unpaid loan
There's seems to be no end in sight for the troubles facing struggling supermarket chain Tuskys. This is after one of its prime properties in downtown Nairobi was listed for auctioning. Auctioneers yesterday issued a two weeks' notice pending the sale of Tuskys Imara, a five-storey commercial property located on the junction of Kenneth Matiba (formerly Accra) Road and Tom Mboya Street in relation to an unpaid bank loan, an official from Antique Auctions told the Nation.

He, however, did not disclose details of the bank loan. The firm said in a newspaper notice that the property that sits on 0.0942 hectares will be sold in March. The property constitutes a five-storey commercial building with a lower ground floor that accommodates main shopping mall, strong room, security office, food store room, pump room, ramp to the ground floor, in addition to the upper stories.

The latest turn of events has exposed the retailer's troubled financial position further, indicating its inability to come out of indebtedness and possibly signaling its last days in existence. Tuskys Imara has been among the retailer's most resilient outlets even as it closed its shops alarmingly in the last two years, with management holding onto it until the last minute.

Coming just weeks after Tuskys closed its T-Mall operations and vacated the premises, the move also shows that the retailer has continued to operate with difficulties, despite interventions by the Competition Authority of Kenya (CAK), since 2020. CAK last year reported that it had issued Prudential and Reporting Orders to Tuskys, requiring it to submit records revealing the full extent of debt owed, financial statements and records, and sales forecasts, as it handled cases of abuse of buyer power that were reported before it. "The authority also required the retailer to submit a debt settlement plan for all debt owed to suppliers over 90 days, and commence honoring its commitments, while prioritizing distressed suppliers and those supplying fast-moving consumer goods. The intervention resulted in payment to the suppliers totaling Sh2 billion," CAK stated in its 2020/21 annual report.

Matters would later escalate and head to court as some creditors sued the retailer for liquidation. Last December, the retailer revealed in court that it owed its unsecured creditors Sh19.6 billion, despite its asset base being only Sh6.67 billion (covering only 34 per cent of the debts owed to unsecured creditors).

(Article by P. Mburu, Daily Nation Newspaper, 5th February 2022)

Required:

a) Explain any Five sources of capital that has been expressly stated or implied in the case of Taskys supermarkets (10 marks)

b) Explain the Four Main functions of Finance in an organization and how each function may impact on the Tusky's present and future prospects (12 Marks)

c) Explain the relationship between business Risk and Expected return in relation to business (8 Marks)

QUESTION 2

a) Baba Dogo ltd. Shares of are very competitive in the market. The company declared a dividend of Ksh 4.18 during the last financial year. The dividend is expected to grow at a rate of 15% for the first 3 years, then at 12% for the following 2 years. Thereafter the growth will be at a constant rate of 7% indefinitely. The company's required rate of return is 10%.

Required:

i. Calculate the intrinsic value of the ordinary share (5 marks)

ii. Describe he assumptions of the model used to value the shares (3 Marks)

b) The following financial statements were obtained from the books of Mapeni Ltd. The net profit for the year 2019 was Ksh 22,500.

Statement of Financial Position As at 31st December 2019

	Sh.
30,000 ordinary shares of @ 200	300,000
Retained earnings	42,500
10% debentures	90,000
Payables	47,500
Bank overdraft	20,000
	500,000
Fixed assets	250,000
Inventory	75,000
Receivables	125,000
Cash	50,000
	500,000

Required:

Compute and interpret the following ratios:

i). Debt equity ratio (3 Marks)

ii). Acid test ratio (3 Marks)
iii). Earnings per share (3 Marks)
iv). Return on Assets . (3 Marks)

QUESTION 3

Bwana Katana who has a capital of Ksh 800,000 is considering whether to invest in a hotel business for six years. The after tax cost of capital is expected to be 14%. The hotel is expected to generate Cashflows of Ksh 275,000 per year for the first three years. The annual cashflows will then reduce by 20% for the next three years. The hotel is expected to have a scrap value of Ksh 37,248.00

Required:

Advise Bwana Katana on which investment to make based on the following methods:

a) Payback Period (3 Marks)
b) Net Present Value (8 Marks)
c) Profitability Index (3 Marks)
d) Non-financial considerations (6 Marks)

QUESTION 4

a) Discuss any FOUR Capital Market Financial Institutions. (12 marks)
b) Discuss any FOUR financial instruments used in the money market (8 marks)

QUESTION 5

a) The capital structure of Chenje Limited is given below:

	Sh. "million"
6,000,000fully paid ordinary shares	60
Retained earnings	40
2,000,000 8% preference shares	30
400,000 10% long term debentures	70
	200

The company intends to raise additional finance as follows:

Sh. 50,000,000 from issuing 8% debentures

Sh. 40,000,000 from selling new ordinary shares at a flotation cost of Sh. 2 per share

The current market value of each ordinary share is Sh. 40. The shareholders expect a dividend of Sh. 5 share next year. The dividends grow at the rate of 12% per annum into perpetuity. The debentures of the company have a face value of Sh. 100 each with market value of Sh. 150. The company's tax rte is 30%.

Required:

i. The company's weighted average cost of capital (WACC) (6 marks)
ii. The marginal cost of capital (6 marks)

b) Mudziagrzi Linited is currently issuing 9% bonds redeemable at Sh. 100 par value in five years' time. Alternatively, each bond may be converted on that date into 20 ordinary shares of the company. The current market price per share is Sh. 4.45 and this is expected to grow at the rate of 6.5% per annum for the foreseeable future. The company's cost of debt is 7% per annum.

Required:

i. Market value of the bond (4 marks)
ii. Floor Value of the bond (4 Marks)

Table A-1 Future Value Interest Factors for One Dollar Compounded at k Percent for n Periods: $FVIF_{k,n} = (1 + k)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	24%	25%	30%
1	1.0100	1.0200	1.0300	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000	1.1100	1.1200	1.1300	1.1400	1.1500	1.1600	1.2000	1.2400	1.2500	1.3000
2	1.0201	1.0404	1.0609	1.0816	1.1025	1.1236	1.1449	1.1664	1.1881	1.2100	1.2321	1.2544	1.2769	1.2996	1.3225	1.3456	1.4400	1.5376	1.5625	1.6900
3	1.0303	1.0612	1.0927	1.1249	1.1576	1.1910	1.2250	1.2597	1.2950	1.3310	1.3676	1.4049	1.4429	1.4815	1.5209	1.5609	1.7280	1.9066	1.9531	2.1970
4	1.0406	1.0824	1.1255	1.1699	1.2155	1.2625	1.3108	1.3605	1.4116	1.4641	1.5181	1.5735	1.6305	1.6890	1.7490	1.8106	2.0736	2.3642	2.4414	2.8561
5	1.0510	1.1041	1.1593	1.2167	1.2763	1.3382	1.4026	1.4693	1.5386	1.6105	1.6851	1.7623	1.8424	1.9254	2.0114	2.1003	2.4883	2.9316	3.0518	3.7129
6	1.0615	1.1262	1.1941	1.2653	1.3401	1.4185	1.5007	1.5869	1.6771	1.7716	1.8704	1.9738	2.0820	2.1950	2.3131	2.4364	2.9860	3.6352	3.8147	4.8268
7	1.0721	1.1487	1.2299	1.3159	1.4071	1.5036	1.6058	1.7138	1.8280	1.9487	2.0762	2.2107	2.3526	2.5023	2.6600	2.8262	3.5832	4.5077	4.7684	6.2749
8	1.0829	1.1717	1.2668	1.3686	1.4775	1.5938	1.7182	1.8509	1.9926	2.1436	2.3045	2.4760	2.6584	2.8526	3.0590	3.2784	4.2998	5.5895	5.9605	8.1573
9	1.0937	1.1951	1.3048	1.4233	1.5513	1.6895	1.8385	1.9990	2.1719	2.3579	2.5580	2.7731	3.0040	3.2519	3.5179	3.8030	5.1598	6.9310	7.4506	10.604
10	1.1046	1.2190	1.3439	1.4802	1.6289	1.7908	1.9672	2.1589	2.3674	2.5937	2.8394	3.1058	3.3946	3.7072	4.0456	4.4114	6.1917	8.5944	9.3132	13.786
11	1.1157	1.2434	1.3842	1.5395	1.7103	1.8983	2.1049	2.3316	2.5804	2.8531	3.1518	3.4785	3.8359	4.2262	4.6524	5.1173	7.4301	10.657	11.642	17.922
12	1.1268	1.2682	1.4258	1.6010	1.7959	2.0122	2.2522	2.5182	2.8127	3.1384	3.4985	3.8960	4.3345	4.8179	5.3503	5.9360	8.9161	13.215	14.552	23.298
13	1.1381	1.2936	1.4685	1.6651	1.8856	2.1329	2.4098	2.7196	3.0658	3.4523	3.8833	4.3635	4.8980	5.4924	6.1528	6.8858	10.699	16.386	18.190	30.288
14	1.1495	1.3195	1.5126	1.7317	1.9799	2.2609	2.5785	2.9372	3.3417	3.7975	4.3104	4.8871	5.5348	6.2613	7.0757	7.9875	12.839	20.319	22.737	39.374
15	1.1610	1.3459	1.5580	1.8009	2.0789	2.3966	2.7590	3.1722	3.6425	4.1772	4.7846	5.4736	6.2543	7.1379	8.1371	9.2655	15.407	25.196	28.422	51.186

Table A-3 Present Value Interest Factors for One Dollar Discounted at k Percent for n Periods: $PVIF_{k,n} = 1 / (1 + k)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	20%	24%	25%	30%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8333	0.8065	0.8000	0.7692
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.6944	0.6504	0.6400	0.5917
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.5787	0.5245	0.5120	0.4552
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.4823	0.4230	0.4096	0.3501
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4019	0.3411	0.3277	0.2693
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3349	0.2751	0.2621	0.2072
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.2791	0.2218	0.2097	0.1594
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2326	0.1789	0.1678	0.1226
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.1938	0.1443	0.1342	0.0943
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.1615	0.1164	0.1074	0.0725
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.3173	0.2875	0.2607	0.2366	0.2149	0.1954	0.1346	0.0938	0.0859	0.0558
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2858	0.2567	0.2307	0.2076	0.1869	0.1685	0.1122	0.0757	0.0687	0.0429
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2575	0.2292	0.2042	0.1821	0.1625	0.1452	0.0935	0.0610	0.0550	0.0330
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2320	0.2046	0.1807	0.1597	0.1413	0.1252	0.0779	0.0492	0.0440	0.0254
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.1079	0.0649	0.0397	0.0352	0.0195