



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS ADMINISTRATION

BAC 2205: BUSINESS FINANCE

SUPPLEMENTARY/SPEC. EXAMINATION

SERIES: JUNE 2022

TIME: 2 HOURS

DATE: Pick Date Jun 2022

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) Entities gear towards achieving their core mandate for operating. Apart from profit maximization, analyze any other FOUR objectives of a business entity. (8 Marks)
- b) Capital budgeting refers to the planning of expenditure to necessitate returns. Highlight FOUR importance of this process. (8 Marks)
- c) Mr. Okinyi is considering two mutually exclusive project 'X' and 'Y'. You are required to advise him about the acceptability of the projects from the following information:

	Project X Sh.	Project Y Sh.
Cost of the investment	100,000	100,000
Forecast cash inflows per annum for 5 years		
Optimistic	60,000	55,000
Most likely	35,000	30,000
Pessimistic	20,000	20,000

The cut-off rate may be assumed to be 15%.

(14 Marks)

Question TWO

a) The following information was obtained from final accounts of ABC Limited;

Current Assets = 1,900,000

Average Stock = 780,000

Quick Asset = 1,120,000

Overdraft = 750,000

Cost of goods sold = 4,475,000

Required:

Calculate the following financial ratios for ABC Limited;

- i. Current ratio
- ii. Acid test ratio
- iii. Adjusted acid test ratio
- iv. Average stock turnover ratio. (12 Marks)

b) Receivable is debt owed to the concern by customers arising from sale of goods or services in the ordinary course of business. Vividly analyze the costs associated with the extension of credit. (8 Marks)

Question THREE

a) Analyze the role of Central Bank of Kenya in the economy (12 Marks)

b) The following is a data from the inventory of a business;

Normal usage: 100 units per week

Maximum usage: 150 units per week

Minimum usage: 50 units per week

Re-order quantity (EOQ) 500: units

Log in time: 5 to 7 weeks

Required:

Calculate;

- i. Re-order level
- ii. Maximum level
- iii. Minimum level
- iv. Average level (8 Marks)

Question FOUR

a) Distinguish the following as used in Business Financing:

- i. Factoring and Debenture
- ii. Lease finance and fixed deposits
- iii. Business and Business Finance. (6 Marks)

- b)
- i. A Ltd. issues Sh. 1,000,000, 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital. (3 Marks)
 - ii. B Ltd. issues Sh. 100,000, 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital. (3 Marks)

- iii. A Ltd. issues Sh. 100,000, 8% debentures at a discount of 5%. The tax rate is 60%, compute the cost of debt capital. (3 Marks)
- iv. B Ltd. issues Sh. 1,000,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate applicable is 50%. Compute the cost of debt-capital. (5 Marks)

Question FIVE

- a) Financial intermediation is a process aiding to bring the interaction of financial borrowers and savers. Explain major contributions of financial institutions to the financial system in Kenya (10 Marks).
- b) Business finance has undergone several phases to this far. Discuss. (10 Marks)