



TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS ADMINISTRATION

BAC 2205: BUSINESS FINANCE

END OF SEMESTER EXAMINATION

**SERIES:** APRIL 2022

**TIME:** 2 HOURS

**DATE:** Pick Date Apr 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.**

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**Question ONE**

- a) Finance has been of importance to the society. Define Business Finance and discuss the social responsibility of finance in the society. (10 Marks)
- b) The following information was extracted from the books of XYZ Ltd;

Initial outlay	Sh. 100,000
Estimated life	5 years
Scrap value	Sh. 10,000
Profit after tax:	
End of year 1	Sh. 6,000
2	Sh. 14,000
3	Sh. 24,000
4	Sh. 16,000
5	NIL

Depreciation has been calculated under straight-line method. The cost of capital may be taken at 10% P.a.

Required;

- i. Calculate the Net Present Value (NPV) and Profitability Index (P.I) of the project. (14 Marks)
- ii. Discuss 2 merits and 2 demerits of NPV appraisal technique for mutually exclusive entities. (6 Marks).

### Question TWO

- a) Regulation of the banking sector is a core mandate of Central Bank of Kenya (CBK). Discuss the necessity for Banks to be regulated. (8 Marks).
- b) The following information was extracted from the books of Danex Holdings regarding its stocks:

Re-order quantity	1,800
Re-order period	4 Weeks
Maximum consumption	450 Units/week
Normal consumption	300 Units/week
Minimum consumption	150 Units/week
Maximum re-order period	5 weeks
Minimum re-order period	3 weeks

Determine the following stock levels for Danex Holdings:

- i. Re-order level (3 Marks)
- ii. Maximum Level (3 Marks)
- iii. Minimum Level (3 Marks)
- iv. Average Level (3 Marks)

### Question THREE

Finance is regarded widely as a lifeblood of business entities. Discuss sources of finance based on various categories as established in Business Finance. (20 Marks).

### Question FOUR

- a) Define time value of money and vividly analyze the reasons in change of the value of a ksh. 100 note over a period of time. (8 Marks)
- b) XYZ Ltd. issues 20,000, 8% preference shares of Sh. 100 each. Cost of issue is Sh. 2 per share. Calculate cost of preference share capital if these shares are issued  
(a) At par (4 Marks)

- (b) At a premium of 10% and
- (c) At a discount of 6%

(4 Marks)

(4 Marks)

**Question FIVE**

- a) Ratio Analysis had been a great technique for gauging the liquidity of a firm. Explain the limitations of this model's effectiveness. (8 Marks)
- b) Digital finance is the term used to describe the impact of new technologies on the financial services industry. Elucidate the digital financial strides that the Business Finance discipline have undergone. (12 Marks)