



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BFI 4203: BUSINESS FINANCE

SUPPLEMENTARY/SPECIAL EXAMINATIONS

SERIES: JULY 2014

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Four printed pages

QUESTION 1 (Compulsory)

- a) Discuss the financial planning process in a typical firm. **(10 marks)**
- b) A successful and sound financial budgeting system is based upon certain pre-requisites. Discuss any **FIVE** such pre-requisites. **(10 marks)**
- c) The following cash flows were projected by Lango La Papa Limited:

Year	Cashflows Sh.
1	600,000
2	1,000,000
3	1,200,000

4	1,400,000
5	2,000,000
6	-1,000,000

Discounting rate 10%

Required:

Compute the present value of the cashflows.

(10 marks)

QUESTION 2

a) Discuss any **FIVE** characteristics of money markets in Kenya.

(10 marks)

b) Discuss any **FIVE** services rendered by capital markets in Kenya.

(10 marks)

QUESTION 3

a) Distinguish between systematic and unsystematic risks. (4 marks)

b) The following details were obtained from the records of Maji ya Jumvi Ltd concerning the expected returns of an investment.

Return %	Probability
9	0.1
10	0.2
11	0.4
12	0.2
13	0.1

Required:

i) Expected rate of return.

(8 marks)

ii) Standard deviation.

(8 marks)

QUESTION 4

The following financial statements were obtained from the books of Mwakirunge Ltd
Income statement for the year of income ending 31.12.2013

	Sh.
Sales	4,000,000

Cost of sales	<u>2,000,000</u>
Gross Profit	2,000,000
Less operating expenses	<u>1,000,000</u>
	1,000,000
Less corporation tax	<u>300,000</u>
	700,000
Dividends David	<u>350,000</u>
Retained Earnings	<u>350,000</u>

**Statement of Financial Position
For the Financial Year 2013**

	Sh.
20,000 ordinary shares of @ 200	4,000,000
Retained earnings	350,000
10% debentures	1,000,000
Payables	450,000
Bank overdraft	<u>200,000</u>
	<u>6,000,000</u>

Fixed assets

Inventory	3,000,000
Receivables	1,000,000
Cash	<u>1,500,000</u>
	<u>6,000,000</u>

Required:

Compute the following ratios:

- i) Debt equity ratio
- ii) Fixed assets turnover ratio
- iii) Current ratio
- iv) Acid test ratio
- v) Earnings per share
- vi) Dividend per share
- vii) Return on capital employed
- viii) Mark-up
- ix) Margin
- x) Liquidity ratio.

(20 marks)

QUESTION 5

a) Discuss any **FIVE** sources of business finance.

(5 marks)

b) The following capital structure was obtained from the books of Wambilianga Ltd:

	Sh.
80,000 ordinary share capital	8,000,000
80,000 10% preference share capital	4,000,000
20,000 10% debentures	2,000,000
Bank loan	<u>1,000,000</u>
	<u>15,000,000</u>

The Company intends to raise additional capital of sh. 3,000,000 without altering the existing capital structure.

Additional information

i)	Source	Current price	Market Price
	Ordinary shares	100	80
	10% preference shares	50	40
	10% debentures	100	90
ii)	Bank loan interest rate:	15%	
iii)	Corporation tax rate	30%	
iv)	Dividend per ordinary share sh.	2.50	

Required:

Compute the company's weighted marginal cost of capital. (WMCC).

(15 marks)