



MUEO

# MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR  
(ACADEMICS, RESEARCH, EXTENSION & STUDENT AFFAIRS)

## UNIVERSITY EXAMINATIONS 2022/2023 ACADEMIC YEAR SECOND YEAR SECOND SEMESTER EXAMINATION

### FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

**COURSE CODE:** BBM 224/ECF 213

**COURSE TITLE:** BUSINESS FINANCE

**DATE:** 14<sup>TH</sup> DECEMBER, 2022 **TIME:** 9.00 A.M. - 12.00 NOON.

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### INSTRUCTION TO CANDIDATES

- SEE INSIDE.

THIS PAPER CONSISTS OF (3) PRINTED PAGES

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**BBM 224: BUSINESS FINANCE**  
**DRAFT EXAM FOR SEPTEMBER**

**Instructions: Answer Question ONE and any other THREE Questions**

**QUESTION ONE**

a) Business is any commercial activity that seeks profit by providing goods and services to others in exchange for money. While, finance is the application of economic principles to decision making that involves the allocation of money under conditions of uncertainty.

From the above information, explain the three key characteristics of business finance (6 marks)

- b) Highlight the four basic roles of financial markets in Kenya (4 marks)
- c) Explain the four financial decisions made for business enterprises (8 marks)
- d) A project requires investment of Ksh. 50,000,000 and it generates cash flow for 5 years as follows.

Years	Cash flows '000'
0	(50,000)
1	20,000
2	30,000
3	40,000
4	35,000
5	18,000

The discounting factor is 8%.

**Required:**

- i) What is the discounted payback period of the project? (5 marks)
- ii) Determine the Net Present Value (NPV) of the project (2 marks)

**(Total: 25marks)**

**QUESTION TWO**

- a) Differentiate between Accounting Rate of Return (ARR) and Internal Rate of Return (IRR) as used in business finance (4 marks)
- b) Moruri Limited is considering undertaking a four year project whose initial investments is shs: 5,000,000 and an installation cost of shs: 1,000, 000. The trader will need shs: 500,000 as working capital for this project. The project is expected to generate the below cash flows and Moruri LTD has a policy of providing for depreciation at the rate of 20% .At the end the project can be sold for shs:1,200,000

Years	1	2	3	4
Cash flows (Shs)	3,500,000	2,900,000	3,800,000	2,400,000



**Additional information:**

The tax rate is 30% and the cost of capital is 12%

**Required:**

- a) The Accounting Rate of Return (ARR) of the project (5 marks)
- b) The Internal Rate of Return (IRR) for the project (6 marks)

**(Total: 15marks)**

**QUESTION THREE**

- a) Briefly explain three determinants of cost of capital for business enterprises (3 marks)
- b) Ali and Sons Company Limited has had a good trading period for the year ended 31st July 2021 and wishes to raise further finances from the following sources:
  - To issue 100,000 Ordinary Shares of Shs. 10/- at Shs. 14/- each.
  - To issue 100,000 12% Preference shares of Shs. 10.00 at Shs.12.00 each.
  - To issue 100,000 16% Debentures of Shs. 100/- at Shs.95/- each.
  - To borrow from Family bank Shs. 5,000,000 Long term loan at 13.8% p.a.

The company is expected to pay an annual dividend on Ordinary shares of Shs. 2.28 and earnings expected to increase by 9% forever. The company will pay Shs. 2/- and Shs.3/- on commissions and brokerage fees respectively for issuing ordinary shares. Corporate tax rate is 30%

**Required**

- a) Compute the cost of each sources of Capital (8 marks)
- b) Determine the WACC of the firm. (4 marks)

**(Total: 15marks)**

**QUESTION FOUR**

- a) Highlight the different methods a company can use to pay dividends to the shareholders (5 marks)
- b) Explain the importance of financial ratio analysis to managers of business organizations of today. (5 marks)
- c) Identify and explain five key determinants of dividends payment by a limited liability company registered in Kenya (5 marks)

### QUESTION FIVE

- a) Differentiate between working capital management and working capital cycle (4 marks)
- b) Briefly explain the importance of working capital management to a small and medium sized organizations (4 marks)
- c) Identify and explain one capital management technique for each of the working capital components that may be found in a business organization (7 marks)

**(Total: 15marks)**

### QUESTION SIX

Write short notes on the following business finance terms

- a) Money markets and capital markets (3 marks)
- b) Invoice discount and factoring (3 marks)
- c) Equity capital and debt capital (3 marks)
- d) Leasing and hire purchase (3 marks)
- e) Trade credit and bank credit (3 marks)

**Total: 15marks)**