



MUEO

MOI UNIVERSITY

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

UNIVERSITY EXAMINATIONS 2023/2024 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: 20TH DECEMEBR, 2023 **TIME:** 9.00 A.M. – 12.00 NOON.

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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ECF 213: PRINCIPLES OF FINANCE

MAIN EXAMINATION

Instructions: Answer question ONE and any other THREE

QUESTION ONE

- a. Discuss in detailed the role of a financial manager in contemporary business environment
(4 marks)
- b. Lochab Ltd is considering the launch of a new product called 'X' which requires an outlay of Kshs 700,000 in plant and machinery. The production of 'X' is expected to last for 5 years after which the plant and machinery would be sold for Kshs 200,000. In addition:
- 'X' would be sold at shs.80 per unit in the market
 - Annual operating expenses will amount to shs. 150,000
 - The company applies straight line method of depreciation
 - The cost of capital is 12% per annum
 - The company expects to sell 4800, 3900, 3800, 3400 and 3000 units of 'X' in the first, second, third, fourth and fifth year of production, respectively
 - The corporation tax rate is 30%

Required:

- i) Calculate the net present value (N.P.V) of the project (12 Marks)
- ii) Advise the management on appropriate course of action (3 Marks)
- c. Discuss the merits and demerits of the following sources of capital
- i. Ordinary share capital (2 marks)
 - ii. Debt capital (2 marks)
 - iii. Preference share capital. (2 marks)

(Total: 25 Marks)

QUESTION TWO

- a. Malindi leisure industries are already highly geared by industry standards, but wishes to raise an external capital to finance the development of a new beach resort. Outline the arguments for and against a right issue by Malindi leisure industries
(10 Marks)
- b. COVID-19 Pandemic severely disrupted financial markets and the economy worldwide. Discuss Economic recovery strategies that Kenya put in place
(5 marks)

(Total: 15 marks)

QUESTION THREE

- a. Elucidate on the agency dilemma and discuss how this can be mitigated? (10 Marks)
- b. Distinguish between the goals of profit maximization and shareholder wealth maximization
(5 Marks)

(Total: 15 marks)

QUESTION FOUR

- a. Moi University has had a perennial student accommodation problem, as a financial specialist you're requested to offer advice on how the University can raise funds to solve this problem.

In clear terms, including suitability, time horizons, costs and acceptability, explain various sources of finance/capital you would recommend. **(9 marks)**

- b. Discuss the requirements that firms must comply before quotation at the Nairobi securities exchange **(6 Marks)**

(Total: 15 marks)

QUESTION FIVE

- a. Discuss the role of integrating financial markets with those of other countries in Kenya **(6 marks)**
- b. Explain why ratio analysis is important to an organization **(3 Marks)**
- c. An extract from the financial statements of Kondele Fisheries Ltd is shown below:

Shs.

Issued share capital:

150,000 ordinary shares of Sh.10 each fully paid	1,500,000
10% loan stock 2019	2,000,000
Share premium	1,500,000
Revenue Reserve	<u>7,000,000</u>
Capital employed	<u>12,000,000</u>

- The profits after 30% tax is Sh.600,000. However, interest charge has not been deducted.
- Ordinary dividend payout ratio is 40%.
- The current market value of ordinary shares Shs.36

Required

- a) Return on capital employed. **(3 marks)**
- b) Gearing ratio. **(3 marks)**

(Total: 15 marks)

QUESTION SIX

- a. Discuss the factors that affect dividend payout policies **(6 marks)**
- b. Differentiate between money market and capital market **(4 Marks)**
- c. Discuss why working capital management is important for organizations **(5 Marks)**

(Total: 15 marks)