



MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS
2013/2014 ACADEMIC YEAR**

THIRD YEAR END OF SEMESTER I/II EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 310

COURSE TITLE:- BUSINESS FINANCE

DATE:- 30TH MAY, 2014

TIME:- 2.00P.M. - 5.00 P.M.

INSTRUCTION TO CANDIDATES

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BBM 310: BUSINESS FINANCE

DRAFT EXAMINATION FOR ACADEMIC YEAR 2013/2014

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE

Question One

- a) Explain the advantage of using market value weights in computing the weighted average cost of capital (6 marks)
- b) The following information was extracted from the books of Kuinda Ltd as at 31st Dec 2013

	shs
Ordinary share capital (per value 20/=	1,600,000
8% preference share capital (per value 24)	1,200,000
10% preference share capital (per value 25)	800,000
10% Debentures	1,000,000
	4,600,000

Additional information:

1. Share prices as at 31st December 2009 were as follows:

	Market price per share (sh)
Ordinary shares	25
8% preference shares	25
10% preference share	20

2. The market value of the 10% Debentures was 1,500,000
3. Tax is at the rate of 30%
4. Dividend per ordinary share has been sh.4.20 over the past five years

Required:

- i) Compute the cost of each source of finance (8 marks)
- ii) Compute the Market weighted average cost of capital (5 marks)
- c) Differentiate between money markets and capital markets (6 marks)

(Total 25 marks)

Question Two

- a) Outline two limitations and two advantages of the Accounting Rate of Return method (2 marks)
- b) The management of Kegogi Ltd is considering two machines A and B. the following information is available
- A costs 380,000 and will be in use for four years
 - B costs 800,000 and will be in use for six years.
 - Both machines do not have salvage value.
 - Investment in working capital of 82,500 will be made at the beginning of the first year for both machines.
 - The pre-tax cash flows for each machine are as follows:-

Year	MACHINES	
	A	B
1	259,000	430,000
2	288,000	329,000
3	305,000	320,000
4	295,000	370,000
5	-	485,000
6	-	442,000

- vi) The cost of capital is 12% and tax rate is 30%

Required:

- Calculate the undiscounted payback period of each machine (3 marks)
- Calculate the net present value for each machine and advise the management the machine to undertake (5 marks)
- The management has received an alternative offer to lease A at an annual lease charge of 120,000 for 4 years payable at the end of the year, all other details remaining unchanged, will this offer affect your selection in part (b) above? Explain. (5 marks)

Question Three

The following information relates to Mbaazi Ltd

	Sh. '000'
Purchase of raw materials	3,350
Usage of raw materials	3,250
Sales of finished goods (all on credit)	12,250
Cost of sales	9,000
Average creditors	700
Average raw materials	600
Average work-in-progress	500
Average finished goods store	1,050
Average debtors	2,350

Assume a 365 days year

Required:

Compute the length of the operating cycle (15 marks)

Question Four

- Discuss the various instruments, giving a brief description of each that available in the Money Market (8 Marks)
- Discuss the role of Capital Markets Authority (CMA) in the development of Kenya's financial markets (7 Marks)

Question Five

- Explain the approaches that a firm can use to finance its working capital needs (7marks)
- Distinguish between the following terms
 - Overtrading and over capitalization (4 marks)
 - Factoring and pledging of debtors (4 marks)

Question Six

- Discuss the determinants of Dividend policy of a company (9 marks)
- Explain the four forms that dividends of a firm may be declared (4 Marks)
- Outline four features of investment decisions (2 marks)