



MUEO

MOI UNIVERSITY

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

UNIVERSITY EXAMINATIONS 2016/2017 ACADEMIC YEAR

END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:- BBM 224

COURSE TITLE:- BUSINESS FINANCE

DATE:- 15TH DECEMBER, 2016 TIME:- 9.00A.M – 12.00NOON.

INSTRUCTION TO CANDIDATES

➤ SEE INSIDE.

THIS PAPER CONSISTS OF (2) PRINTED PAGES

PLEASE TURN OVER

DEPARTMENT OF ACCOUNTING & FINANCE
BBM 224: BUSINESS FINANCE
DECEMBER 2016 EXAMINATIONS

Instructions: Answer Question ONE and any Other THREE Questions

QUESTION ONE

- a) Moses was recently appointed as an investment manager for a milling firm Unga Ltd Company. A quoted company in the Nairobi Securities Market. The company has raised Sh.3,550,000 through a rights issue; the newly appointed manager has the task of evaluating two mutually exclusive projects with unequal economic lives. Project A has 4 years and project B has 2 years of economic life. Both projects are expected zero salvage value. Their expected cash flows are as follows:

Project	A	B
Year	Cash flows (Sh.)	Cash flows (Sh.)
1	850,000	1,750,000
2	1,000,000	1,350,000
3	900,000	2,100,000
4	1,050,000	450,000
5	1,280,000	-
6	1,300,000	-
7	1,200,000	-

The amount raised would be used to finance either of the projects. The company expects to pay a dividend per share of Sh.2.20 in one year's time and the dividends are expected to grow at the rate of 3% forever. The current market price per share is Sh.20. Unga Ltd Co. has no debt capital structure.

Required

- The cost of equity of the firm (k.e) (4 marks)
 - The net present value (NPV) of each project. (5 marks)
 - The internal rate of return (IRR) of the projects. (5 marks)
 - Advice the company on which project to invest using net present value (NPV) (2marks)
- b) State and explain factors to be considered when making a capital structure decision for a firm. (4 marks)

- c) Outline the reasons why Capital Markets are more developed than money Markets in Kenya? (5mks)

QUESTION TWO

- a) The firm's motives for holding cash money can be attributed to three major motives. Discuss each of these motives citing relevant examples from the industry. (10mks)
- b) Explain five reasons why working capital management is important day to day running of an organization. (5mks)

QUESTION THREE

- a) Three expansion projects are being reviewed by the Moi University. Each will require a capital of 100,000 and offers the following projected cash flows.

YEAR	Research	Engineering	Technology
1	20,000	35,000	20,000
2	20,000	30,000	25,000
3	20,000	25,000	30,000
4	20,000	20,000	35,000
5	<u>20,000</u>	<u>15,000</u>	<u>40,000</u>
Total Profit	100,000	125,000	150,000

Which project should be accepted based on,

- i) ARR (2mks)
- ii) Payback period (2mks)
- iii) NPV assuming the cost of capital is 10% (2mks)
- iv) IRR (3mks)
- b). State and explain ways of solving shareholders-auditors conflict of interest (6 mks)

QUESTION FOUR

- a) Ethical responsibility arises not as a result of legal requirement but not as a moral imperative for companies to operate in an ethical and fair manner. Discuss the main features in which the ethical responsibility of a company is discharged. (5 Marks)

- b) Define agency as used in business finance? Discuss the various types of agency relationships highlighting the causes conflicts and solutions to the problems. (10mks)

QUESTION FIVE

- a) The following is the capital structure of Reliance Co. Ltd as at 31/12/2015.

Shs	
Ordinary Share Capital Sh. 10 Par Value	400
Retain earnings	200
10% Preference share capital Sh. 20 Par Value	100
12% Debentures Sh. 100 Par Value	200

Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value
MPS = ParValue
3. The debenture has a 10 Years maturity period. It is currently selling at Sh.90 in theMarket.
4. Currently the firm has been paying dividend per share of Sh.5. The DPS is expected to grow at 5% p.a. in future. The current MPS is Sh.40.

Required:

- i. Determine the WACC of the firm. (7 Marks)
 - ii. What are the weaknesses associated with WACC when used as the discounting rate, in Project Appraisal. (3 Marks)
- b) Explain the reasons why firms in the same industry with equal earnings and share capital would pay different amount of dividends? (5 Marks)

QUESTION SIX

- a) Discuss the major roles of Financial Markets and Institutions play in an Economy (7 marks)
- b) Discuss the rules for floating and the drawbacks that arise to companies quoted at the Nairobi Securities Exchange (NSE). (8 marks)

****END****